

Audit Handbook

Conducting Performance Audits In Accordance with the Yellow Book

June 2008

Revised February 2009

Revised September 2010

**CITY AUDITOR
CITY OF SAN DIEGO**

Section 1

Introduction and Overview

Purpose

The purpose of this audit manual is to guide Office of the City Auditor staff in conducting or overseeing financial and performance audits as required by the City Charter, Ordinance, or derived from the Citywide risk assessment. This manual describes the audit function, and documents how the Office of the City Auditor meets and complies with generally accepted government auditing standards (GAGAS) as set forth in the Government Auditing Standards, July 2007 Revision, commonly referred to as the Yellow Book, issued by the U.S. Government Accountability Office. The Audit Manual references GAGAS and helps Office of the City Auditor staff plan, organize and conduct performance audits, and how to develop and report audit findings in accordance with Government Auditing Standards.

The San Diego Office of the City Auditor Manual is comprised of the following sections

Section 1	Introduction and Overview
Section 2	Ethical Principles in Government
Section 3	Audit Standards—General Standards
Section 4	Field Work Standards for Performance Audits
Section 5	Audit Process—Planning to Fieldwork
Section 6	Elements Critical To Successful Fieldwork
Section 7	Reporting Audit Results
Section 8	Audit Workplan, Recommendations, and Communications
Section 9	Fraud Hotline
Section 10	Supplemental Guidance on Internal Control, Abuse, Fraud and Assessing Significance of Laws, Regulations, or Provisions of Contracts or Grant Agreements
Section 11	Supplemental Guidance for Agreed-Upon Procedures Attestation Engagements

On annual basis, Audit management will review and update the audit manual to ensure compliance with Government Auditing Standards.

Section 1 describes the Office of the City Auditor's mission and authority, and describes the various types of audits that the City Auditor may conduct. This manual will be updated as needed to keep the office current with progress in the field of auditing or changes to auditing standards.

Mission

The Office of the City Auditor is a newly created independent office that reports to and is accountable to the Audit Committee and City Council. The City Auditor will conduct financial and performance audits of City departments, offices, and agencies in accordance with government auditing standards.

The audits may assess internal controls over financial reporting and evaluate how well the City complies with all applicable laws, rules and regulations; achieves stated goals and objectives; reports financial and performance information (reliability); efficiently and effectively uses resources; and safeguards and protects assets.

The Department's mission is:

To advance open and accountable government through accurate, independent, and objective audits that seek to improve the economy, efficiency, and effectiveness of City government

The City Auditor will conduct all audit work in accordance with GAGAS and provide decision makers with audits that are timely, accurate, and objective.

Types of Audits and Attestation Engagements

Government Auditing Standards establishes and defines the types of engagements that audit organizations may perform. These engagements include performance and financial audits, and attestation engagements. The standards also define nonaudit services.

Performance Audits

Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.¹

¹ Reporting information without following GAGAS is not a performance audit but a nonaudit service provided by an audit organization.

Performance audits that comply with GAGAS provide reasonable assurance that the auditors have obtained sufficient, appropriate evidence to support the conclusions reached. Thus, the sufficiency and appropriateness of evidence needed and tests of evidence will vary based on the audit objectives and conclusions.

A performance audit is a dynamic process that includes consideration of the applicable standards throughout the course of the audit. An ongoing assessment of the objectives, audit risk, audit procedures, and evidence during the course of the audit facilitates the auditors' determination of what to report and the proper context for the audit conclusions, including discussion about the sufficiency and appropriateness of evidence being used as a basis for the audit conclusions. Performance audit conclusions logically flow from all of these elements and provide an assessment of the audit findings and their implications.

Performance Audit Objectives May Vary

Audit standards have established that performance audit objectives may vary widely and include assessments of program effectiveness, economy, and efficiency; internal control; compliance; and prospective analyses. These overall objectives are not mutually exclusive. Thus, a performance audit may have more than one overall objective. For example, a performance audit with an initial objective of program effectiveness may also involve an underlying objective of evaluating internal controls to determine the reasons for a program's lack of effectiveness or how effectiveness can be improved.

Program effectiveness and results audit objectives are frequently interrelated with economy and efficiency objectives. Audit objectives that focus on program effectiveness and results typically measure the extent to which a program is achieving its goals and objectives. Audit objectives that focus on economy and efficiency address the costs and resources used to achieve program results. Examples of audit objectives in these categories include

- a. assessing the extent to which legislative, regulatory, or organizational goals and objectives are being achieved;
- b. assessing the relative ability of alternative approaches to yield better program performance or eliminate factors that inhibit program effectiveness;
- c. analyzing the relative cost-effectiveness of a program or activity;
- d. determining whether a program produced intended results or produced results that were not consistent with the program's objectives;
- e. determining the current status or condition of program operations or progress in implementing legislative requirements;
- f. determining whether a program provides equitable access to or distribution of public resources within the context of statutory parameters;
- g. assessing the extent to which programs duplicate, overlap, or conflict with other related programs;

- h. evaluating whether the audited entity is following sound procurement practices;
- i. assessing the reliability, validity, or relevance of performance measures concerning program effectiveness and results, or economy and efficiency;
- j. assessing the reliability, validity, or relevance of financial information related to the performance of a program;
- k. determining whether government resources (inputs) are obtained at reasonable costs while meeting timeliness and quality considerations;
- l. determining whether appropriate value was obtained based on the cost or amount paid or based on the amount of revenue received;
- m. determining whether government services and benefits are accessible to those individuals who have a right to access those services and benefits;
- n. determining whether fees assessed cover costs;
- o. determining whether and how the program's unit costs can be decreased or its productivity increased; and
- p. assessing the reliability, validity, or relevance of budget proposals or budget requests to assist legislatures in the budget process.

Performance Audits Can Include Internal Control Objectives

Internal control audit objectives relate to an assessment of the component of an organization's system of internal control that is designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations. Internal control objectives also may be relevant when determining the cause of unsatisfactory program performance. Internal control comprises the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal control includes the processes and procedures for planning, organizing, directing, and controlling program operations, and management's system for measuring, reporting, and monitoring program performance. Examples of audit objectives related to internal control include an assessment of the extent to which internal control provides reasonable assurance about whether

- a. organizational missions, goals, and objectives are achieved effectively and efficiently;
- b. resources are used in compliance with laws, regulations, or other requirements;
- c. resources, including sensitive information accessed or stored outside the organization's physical perimeter, are safeguarded against unauthorized acquisition, use, or disposition;

- d. management information, such as performance measures, and public reports are complete, accurate, and consistent to support performance and decision making;
- e. the integrity of information from computerized systems is achieved; and
- f. contingency planning for information systems provides essential back-up to prevent unwarranted disruption of the activities and functions that the systems support.

Compliance audit objectives relate to compliance criteria established by laws, regulations, contract provisions, grant agreements, and other requirements that could affect the acquisition, protection, use, and disposition of the entity's resources and the quantity, quality, timeliness, and cost of services the entity produces and delivers. Compliance objectives include determining whether

- a. the purpose of the program, the manner in which it is to be conducted, the services delivered, the outcomes, or the population it serves is in compliance with laws, regulations, contract provisions, grant agreements, and other requirements;
- b. government services and benefits are distributed or delivered to citizens based on the individual's eligibility to obtain those services and benefits;
- c. incurred or proposed costs are in compliance with applicable laws, regulations, and contracts or grant agreements; and
- d. revenues received are in compliance with applicable laws, regulations, and contract or grant agreements.

Prospective analysis audit objectives provide analysis or conclusions, about information that is based on assumptions about events that may occur in the future along with possible actions that the audited entity may take in response to the future events. Examples of objectives pertaining to this work include providing conclusions based on

- a. current and projected trends and future potential impact on government programs and services;
- b. program or policy alternatives, including forecasting program outcomes under various assumptions;
- c. policy or legislative proposals, including advantages, disadvantages, and analysis of stakeholder views;
- d. prospective information prepared by management;
- e. budgets and forecasts that are based on (1) assumptions about expected future events and (2) management's expected reaction to those future events; and
- f. management's assumptions on which prospective information is based.

Financial audits

The Yellow Book defines financial audits as:

An audit primarily concerned with providing reasonable assurance about whether financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles (GAAP), or with a comprehensive basis of accounting other than GAAP. Other objectives of financial audits, which provide for different levels of assurance and entail various scopes of work, may include:

- providing special reports for specified elements, accounts, or items of a financial statement;
- reviewing interim financial information;
- issuing letters for underwriters and certain other requesting parties;
- reporting on the processing of transactions by service organizations; and
- auditing compliance with regulations relating to federal award expenditures and other governmental financial assistance in conjunction with or as a by-product of a financial statement audit.

Attestation engagements

The Yellow Book defines an attestation engagement as:

An engagement concerned with examining, reviewing, or performing agreed-upon procedures on a subject matter or an assertion about a subject matter and reporting on the results. The subject matter of an attestation engagement may take many forms, including historical or prospective performance or condition, physical characteristics, historical events, analyses, systems and processes, or behavior. Attestation engagements can cover a broad range of financial or non-financial subjects and can be part of a financial audit or performance audit. Possible subjects of attestation engagements could include reporting on:

- an entity's internal control over financial reporting;
- an entity's compliance with requirements of specified laws, regulations, rules, contracts, or grants;
- the effectiveness of an entity's internal control over compliance with specified requirements, such as those governing the bidding for, accounting for, and reporting on grants and contracts;
- management's discussion and analysis presentation;
- prospective financial statements or pro-forma financial information;
- the reliability of performance measures;
- final contract cost;
- allowability and reasonableness of proposed contract amounts; and
- specific procedures performed on a subject matter (agreed-upon procedures).

Nonaudit Services

The Yellow Book establishes that audit organizations that provide nonaudit services (professional services) must communicate to management that the scope of work performed does not constitute an audit under the yellow book. Further, audit organizations that provide nonaudit services must evaluate whether providing nonaudit services creates an independence impairment in fact or appearance with respect to the entities they audit. Non-audit services are covered in Section 3 of the Audit Manual.

Office of the City Auditor Policy

Unless noted, the type of audit work Office of the City Auditor performs will be considered performance audits. As a result, Office of the City Auditor will conduct all of its audits under the performance audit standards. We should note that Office of the City Auditor does not perform the City's financial audits because the City hires an external auditor to conduct the financial statement audits.

Auditor Review of Audit Handbook

Auditors have a responsibility to remain aware and up to date regarding office policies and procedures. Each auditor is given a copy of the Audit Manual (or provided access to an electronic version) for their review. Each auditor is responsible for reading and understanding the requirements promulgated in the Audit Handbook. Where auditors have questions related to policies and procedures, the auditor shall approach an audit manager to obtain clarification. From time to time, the office may issue directives to address pressing issues. Directives can be integrated into the Audit Handbook when the office conducts its annual review of the quality control system.

Office of the City Auditor Policy

Each auditor shall complete a written form indicated that they have received a copy (of access), read, and understand the office Audit Handbook.

Section 2

Ethical Principles In Government Auditing

The July 2007 Revision to Government Auditing Standards emphasizes ethical principles as the foundation, discipline, and structure behind the implementation of the standards, including establishing five key ethical principles that guide the work of those conducting audits in accordance with the standards. Section II of the Audit Manual identifies the five key ethical principles and establishes the policy of requiring all auditors in the Office of the City Auditor to adhere to those principles.

Government Auditing Standards Section 2.01 establishes the following:

Because auditing is essential to government accountability to the public, the public expects audit organizations and auditors who conduct their work in accordance with generally accepted government auditing standards (GAGAS) to follow ethical principles. Management of the audit organization sets the tone for ethical behavior throughout the organization by maintaining an ethical culture, clearly communicating acceptable behavior and expectations to each employee, and creating an environment that reinforces and encourages ethical behavior throughout all levels of the organization. The ethical tone maintained and demonstrated by management and staff is an essential element of a positive ethical environment for the audit organization.

Ethical Principles

The following ethical principles provide a framework for applying GAGAS. Each principle is described, so that auditors can consider the facts and circumstances of each situation within the framework of these ethical principles.

Ethical Principle	Description
Public Interest	<p>The public interest is defined as the collective wellbeing of the community of people and entities the auditors serve. Observing integrity, objectivity, and independence in discharging their professional responsibilities assists auditors in meeting the principle of serving the public interest and honoring the public trust. These principles are fundamental to the responsibilities of auditors and critical in the government environment.</p> <p>A distinguishing mark of an auditor is acceptance of responsibility to serve the public interest. This responsibility is critical when auditing in the government environment. GAGAS embody the concept of accountability for public resources, which is fundamental to serving the public interest.</p>
Integrity	<p>Public confidence in government is maintained and strengthened by auditors' performing their professional responsibilities with integrity. Integrity includes auditors' conducting their work with an attitude that is objective, fact-based, nonpartisan, and non-ideological with regard to audited entities and users of the auditors' reports. Within the constraints of applicable confidentiality laws, rules, or policies, communications with the audited entity, those charged with governance, and the individuals contracting for or requesting the audit are expected to be honest, candid, and constructive.</p> <p>Making decisions consistent with the interest of the program or activity under important part of the principle of integrity. discharging their professional responsibilities, encounter conflicting pressures from audited entity, various levels of government, likely users. Auditors may also encounter pressures to violate ethical principles to achieve personal or organizational gain. In resolving those conflicts and pressures, acting with integrity means that auditors place priority on their responsibilities to the public interest.</p>
Objectivity	<p>The credibility of auditing in the government sector is based on auditors' objectivity in discharging their professional responsibilities. Objectivity includes being independent in fact and appearance when providing audit and attestation engagements, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of interest. Avoiding conflicts that may, in fact or appearance, impair auditors' objectivity in performing the audit or attestation engagement is essential to retaining credibility. Maintaining objectivity includes a continuing assessment of relationships with audited entities and other stakeholders in the context of the auditors' responsibility to the public.</p>

Ethical Principle	Description
<p>Proper Use of Government Information, Resources, and position</p>	<p>Government information, resources, to be used for official purposes and not inappropriately for the auditor's personal manner contrary to law or detrimental to interests of the audited entity or the audit concept includes the proper handling classified information or resources.</p> <p>In the government environment, the public's right to the transparency of government information has to be balanced with the proper use of that information. In addition, many government programs are subject to laws and regulations dealing with the disclosure of information. To accomplish this balance, exercising discretion in the use of information acquired in the course of auditors' duties is an important part in achieving this goal. Improperly disclosing any such information to third parties is not an acceptable practice.</p> <p>As accountability professionals, accountability to the public for the proper use and prudent management of government resources is an essential part of auditors' responsibilities. Protecting and conserving government resources and using them appropriately for authorized activities is an important element in the public's expectations for auditors.</p> <p>Misusing the position of an auditor for personal gain violates an auditor's fundamental responsibilities. An auditor's credibility can be damaged by actions that could be perceived by an objective third party with knowledge of the relevant information as improperly benefiting an auditor's personal financial interests or those of an immediate or close family member; a general partner; an organization for which officer, director, trustee, or employee; or an organization with which the auditor is negotiating concerning future employment.</p>
<p>Professional Behavior</p>	<p>High expectations for the auditing profession include compliance with laws and regulations and avoidance of any conduct that might bring discredit to auditors' work, including actions that would cause an objective third party with knowledge of the relevant information to conclude that the auditors' work was professionally deficient. Professional behavior includes auditors' putting forth an honest effort in performance their duties and professional services in accordance the relevant technical and professional standards.</p>

Office of the City Auditor Policy

The City Auditor and all audit staff are required to adhere to and follow the five key ethical principles. On an annual basis, the City Auditor and all audit staff will review the five ethical principles and attest in writing that they will adhere to and follow the identified principles. In the event, the City Auditor or audit staff cannot comply with or adhere to the identified principles, they should immediately notify their appointing authority of the circumstances involving the ethical principles. See page 13 for annual ethical principle statement.

Annual Ethical Principle Statement Office of the City Auditor City of San Diego

The July 2007 Revision to Government Auditing Standards emphasizes ethical principles as the foundation, discipline, and structure behind the implementation of the standards, including establishing five key ethical principles that guide the work of those who conduct audits in accordance with the standards. The ethical principles involve 1) public interest, 2) integrity, 3) objectivity, 4) proper use of government information, resources, and position, and 5) professional behavior. The City Auditor and all audit staff are required to adhere to and follow the five key ethical principles listed below. On an annual basis, the City Auditor and all audit staff will review the five ethical principles and attest that they will adhere to and follow the identified principles.

Public Interest

The public interest is defined as the collective well being of the community of people and entities the auditors serve. Observing integrity, objectivity, and independence in discharging their professional responsibilities assists auditors in meeting the principle of serving the public interest and honoring the public trust. These principles are fundamental to the responsibilities of auditors and critical in the government environment.

A distinguishing mark of an auditor is acceptance of responsibility to serve the public interest. This responsibility is critical when auditing in the government environment. GAGAS embody the concept of accountability for public resources, which is fundamental to serving the public interest.

Integrity

Public confidence in government is maintained and strengthened by auditors performing their professional responsibilities with integrity. Integrity includes auditors conducting their work with an attitude that is objective, fact-based, nonpartisan, and non-ideological with regard to audited entities and users of audit reports. Within the constraints of applicable confidentiality laws, rules, or policies, communications with the audited entity, those charged with governance, and the individuals contracting for or requesting the audit are expected to be honest, candid, and constructive.

Making decisions consistent with the interest of the program or activity under important part of the principle of integrity, discharging their professional responsibilities, encounter conflicting pressures from audited entity, various levels of government, likely users. Auditors may also encounter pressures to violate ethical principles to achieve personal or organizational gain. In resolving those conflicts and pressures, acting with integrity means that auditors place priority on their responsibilities to the public interest.

Objectivity

The credibility of auditing in the government sector is based on auditors' objectivity in discharging their professional responsibilities. Objectivity includes being independent in fact and appearance when providing audit and attestation engagements, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of interest. Avoiding conflicts that may, in fact or appearance, impair auditors' objectivity in performing the audit or attestation engagement is essential to retaining credibility. Maintaining objectivity includes a continuing assessment of relationships with audited entities and other stakeholders in the context of the auditors' responsibility to the public.

Proper Use of Government Information, Resources, and Position

Government information, resources, to be used for official purposes and not inappropriately for the auditor's personal manner contrary to law or detrimental to interests of the audited entity or the audit concept includes the proper handling of classified information or resources.

In the government environment, the public's right to the transparency of government information has to be balanced with the proper use of that information. In addition, many government programs are subject to laws and regulations dealing with the disclosure of information. To accomplish this balance, exercising discretion in the use of information acquired in the course of auditors' duties is an important part in achieving this goal. Improperly disclosing any such information to third parties is not an acceptable practice.

As accountability professionals, accountability to the public for the proper use and prudent management of government resources is an essential part of auditors' responsibilities. Protecting and conserving government resources and using them appropriately for authorized activities is an important element in the public's expectations for auditors.

Misusing the position of an auditor for personal gain violates an auditor's fundamental responsibilities. An auditor's credibility can be damaged by actions that could be perceived by an objective third party with knowledge of the relevant information as improperly benefiting an auditor's personal financial interests or those of an immediate or close family member; a general partner; an organization for which officer, director, trustee, or employee; or an organization with which the auditor is negotiating concerning future employment.

Professional Behavior

High expectations for the auditing profession include compliance with laws and regulations and avoidance of any conduct that might bring discredit to auditors' work, including actions that would cause an objective third party with knowledge of the relevant information to conclude that the auditors' work was professionally deficient. Professional behavior includes auditors' putting forth an honest effort in performance of their duties and professional services in accordance the relevant technical and professional standards.

I _____, auditor for the City of San Diego, have reviewed the stated ethical principles and pledge to adhere to the principles to the best of my ability. In the event, I cannot comply with or adhere to the identified principles I will immediately notify my appointing authority of the circumstances involving the ethical principles.

Auditor's Signature: _____ **Date:** _____

City

Auditor's Signature: _____ **Date:** _____

Section 3

Audit Standards—General Standards

It is the policy of the Office of the City Auditor to follow generally accepted government auditing standards (GAGAS), as provided in *Government Auditing Standards*, July 2007 Revision, issued by the U.S. Government Accountability Office—more commonly referred to as the **Yellow Book**.¹

This section documents the four general standards and provides guidance for performing financial audits, attestation engagements, and performance audits. These general standards deal with:

- Independence
- Professional Judgment
- Competence
- Quality Control and Assurance

Specifically, the general standards encompass the independence of the audit organization and its individual auditors; the exercise of professional judgment in the performance of work and the preparation of related reports; the competence of audit staff, including the need for their continuing professional education; and the existence of quality control systems and external peer reviews. Section 3 also documents the Office of the City Auditor policies and procedures for complying with the four general standards. The fieldwork and reporting standards and applicable policies are covered in Section 4 and Section 7.

¹ The July 2007 revision of Government Auditing Standards supersedes the 2003 revision and updates the January 2007 revision. The July 2007 revision represents the complete 2007 revision of Government Auditing Standards, and is the version that should be used by government auditors until further updates and revisions are made. The effective implementation date of the revised standards is January 1, 2008.

Government Auditing Standards--Performance Audits		
General Standards	Fieldwork Standards	Reporting Standards
Audit Manual Section 3	Audit Manual Section 4	Audit Manual Section 7
Independence	Reasonable Assurance	Form
Professional Judgment	Significance	Report Contents
Competence	Audit Risk	Report Quality Elements
Quality Control and Assurance	Planning	Report Issuance and Distribution

Independence

In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be free from personal, external, and organizational impairments to independence, and must avoid the appearance of such impairments of independence.

The Independence Standard also requires that auditors and audit organizations must maintain independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial and viewed as impartial by objective third parties with knowledge of the relevant information. Auditors should avoid situations that could lead objective third parties with knowledge of the relevant information to conclude that the auditors are not able to maintain independence and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the audit and reporting on the work.

In addition, the Independence Standard requires auditors when evaluating whether independence impairments exist either in fact or appearance with respect to the entities for which audit organizations perform audits or attestation engagements, auditors and audit organizations must take into account the three general classes of impairments to independence—personal, external, and organizational. If one or more of these impairments affects or can be perceived to affect independence, the audit organization (or auditor) should decline to perform the work—except in those situations in which an audit organization in a government entity, because of a legislative requirement or for other reasons, cannot decline to perform the work, in which case the government audit organization must disclose the impairment(s) and modify the GAGAS compliance statement.

Finally, the Independence Standard also establishes that if an impairment is identified after the audit report is issued, the audit organization should assess the impact on the audit. If the audit organization concludes that it did not comply with GAGAS, it should determine the impact on the auditors' report and notify entity management, those charged with governance, the requesters, or regulatory agencies that have jurisdiction over the audited entity and persons known to be using the audit report about the independence impairment and the impact on the audit. The audit organization should make such notifications in writing.

Personal Impairment

Auditors participating on an audit assignment must be free from personal impairments to independence. Personal impairments of auditors result from relationships or beliefs that might cause auditors to limit the extent of the inquiry, limit disclosure, or weaken or slant audit findings in any way. Individual auditors should notify the appropriate officials within their audit organizations if they have any personal impairment to independence.

External Impairment

Audit organizations must be free from external impairments to independence. Factors external to the audit organization may restrict the work or interfere with auditors' ability to form independent and objective opinions, findings, and conclusions. External impairments to independence occur when auditors are deterred from acting objectively and exercising professional skepticism by pressures, actual or perceived, from management and employees of the audited entity or oversight organizations.

External impairments may include: (a) limits or modifications on audit scopes, (b) interference with the selection or application of audit procedures or transactions, (c) restrictions on the time allowed to complete an audit, (d) restrictions on access to records or individuals needed to conduct the audit, (e) interference with assignment, appointment, compensation, and promotion of audit personnel, (f) restrictions on resources provided to the audit organization, (g) authority to overrule or influence the auditor's judgment, (h) threat of replacement over a disagreement with contents of an audit report, and (i) influences that jeopardize the auditors' continued employment.

Office of the City Auditor Policy

To ensure compliance with the Independence Standard regarding personal and external impairments, all City Auditor staff will be required to sign an annual independence statement. An auditor will not be assigned to an audit with an existing impairment, unless the assignment is unavoidable and a justification is provided. Should an actual or perceived personal or external impairment arise during the course of an assignment, the auditor is responsible for advising the City Auditor immediately. In any impairment cannot be resolved, the impairment must be reported in the scope section of the report. The City Auditor will take the appropriate disciplinary action for audit staff that fail to report any impairments identified during the course of an assignment. See page 24 for Annual Independence Statement.

External impairments that cannot be resolved by the City Auditor will be reported to the Audit Committee for action. Impairments reported to the Audit Committee that are not resolved will be reported to the City Council for action.

Organizational Independence

The ability of audit organizations in government entities to perform work and report the results objectively can be affected by placement within government, and the structure of the government entity being audited. Whether reporting to third parties externally or to top management within the audited entity internally, audit organizations must be free from organizational impairments to independence with respect to the entities they audit. Impairments to organizational independence result when the audit function is

organizationally located within the reporting line of the areas under audit or when the auditor is assigned or takes on responsibilities that affect operations of the area under audit.

In the City of San Diego, auditor independence is established by City Charter Section 39.2, enacted by the voters on June 3, 2008. See <http://www.sandiego.gov/city-clerk/officialdocs/legisdocs/charter.shtml>. Section 39.2 of the City Charter created the Office of the City Auditor and specified the following:

The City Auditor shall be appointed by the City Manager, in consultation with the Audit Committee, and confirmed by the Council. The City Auditor shall be a certified public accountant or certified internal auditor. The City Auditor shall serve for a term of ten years. The City Auditor shall report to and be accountable to the Audit Committee. Upon the recommendation of the Audit Committee, the City Auditor may be removed for cause by a vote of two-thirds of the members of the Council. The City Auditor shall be the appointing authority of all City personnel authorized in the department through the normal annual budget and appropriation process of the City, and subject to the Civil Service provisions of this Charter.

The City Auditor shall prepare annually an Audit Plan and conduct audits in accordance therewith and perform such other duties as may be required by ordinance or as provided by the Constitution and general laws of the State. The City Auditor shall follow Government Auditing Standards. The City Auditor shall have access to, and authority to examine any and all records, documents, systems, and files of the City and/or other property of any City department, office, or agency, whether created by the Charter or otherwise. It is the duties of any officer, employee, or agent of the City having control of such records to permit access to, and examination thereof, upon the request of the City Auditor or his or her authorized representative. It is also the duty of any such officer, employee, or agent to fully cooperate with the City Auditor, and to make full disclosure of all pertinent information. The City Auditor may investigate any material claim of financial fraud, waste, or impropriety within any City Department and for that purpose may summon any officer, agent, or employee of the City, any claimant or other person, and examine him or her upon oath or affirmation relative thereto. All City contracts with consultants, vendors or agencies will be prepared with an adequate audit clause to allow the City Auditor access to the entity's records needed to verify compliance with the terms specified in the contract. Results of all audits and reports shall be made available to the public subject to exclusions of the Public Records Act.

Organization Independence When Performing Nonaudit Services

Government Auditing Standards recognize that audit organizations at times may perform other professional services (nonaudit services) that are not performed in accordance with GAGAS. Audit organizations that provide nonaudit services must evaluate whether providing the services creates an independence impairment either in fact or appearance with respect to entities they audit. Based on the facts and circumstances, professional judgment is used in determining whether a nonaudit service would impair an audit organization's independence with respect to entities it audits.

The following two overarching principles apply to auditor independence when assessing the impact of performing a nonaudit service for an audited program or entity:

- 1) audit organizations must not provide nonaudit services that involve performing management functions or making management decisions; and
- 2) audit organizations must not audit their own work or provide nonaudit services in situations in which the nonaudit services are significant or material to the subject matter of the audits.

In considering whether audits performed by the audit organization could be significantly or materially affected by the nonaudit service, audit organizations should evaluate (1) ongoing audits; (2) planned audits; (3) requirements and commitments for providing audits, which includes laws, regulations, rules, contracts, and other agreements; and (4) policies placing responsibilities on the audit organization for providing audit services.

Nonaudit services generally fall into one of the following categories:

- a. Nonaudit services that do not impair the audit organization's independence with respect to the entities it audits and, therefore, do not require compliance with the supplemental safeguards.
- b. Nonaudit services that would not impair the audit organization's independence with respect to the entities it audits as long as the audit organization complies with supplemental safeguards.
- c. Nonaudit services that do impair the audit organization's independence. Compliance with the supplemental safeguards will not overcome this impairment.

Office of the City Auditor Policy Regarding Nonaudit Services

In consultation with the Audit Committee, the City Auditor will consider performing the requested non-audit service in the context of impact on the current audit workplan. Further to ensure compliance in maintaining independence while performing nonaudit services, City Auditor staff will complete an Nonaudit Assessment form. The City Auditor will decline requests to perform Nonaudit services that impair the audit organization's independence. See page 25 for the Nonaudit Assessment form.

Professional Judgment

This standard requires that auditors must use professional judgment in planning and performing audits and attestation engagements and in reporting the results. Professional judgment includes exercising reasonable care and professional skepticism. Reasonable care concerns acting diligently in accordance with applicable professional standards and ethical principles. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of evidence. Professional skepticism includes a mindset in which auditors assume neither that management is dishonest nor of unquestioned honesty. Believing that management is honest is not a reason to accept less than sufficient, appropriate evidence.

Office of the City Auditor Policy On Professional Judgment

The Audit Manual includes procedures for conducting audit planning, risk assessment, and audit fieldwork, as well as procedures for preparing workpapers and report writing. Evidence that the professional judgment standard was met should include completed and approved audit programs for audit planning, field work, and report writing. If any of the audit phases are not performed, a written justification for not doing so should be included in the workpapers. Also, included should be a signed ethical principle statement form documenting awareness of required behavior.

For each audit done in accordance with GAGAS, auditors should complete an Audit Standards Plan. The Audit Standards Plan includes procedures to ensure that internal procedures and GAGAS are followed.

Competence

The standards require that staff assigned to perform the audit or attestation engagement must collectively possess adequate professional competence for the tasks required. Competence is derived from a blending of education and experience. Competencies are not necessarily measured by years of auditing experience because such a quantitative measurement may not accurately reflect the kinds of experiences gained by an auditor in any given time period. Maintaining competence through a commitment to learning and development throughout an auditor's professional life is an important element for auditors. Competence enables an auditor to make sound professional judgments. Audit management will assign staff to audits (financial, attestation, and performance), based

on staff technical knowledge, skills, and experience. See Section 5 for process for evaluating staff competence.

Office of the City Auditor Policy Regarding Auditor Competence

In the Office of the City Auditor, auditor competence is defined by minimum high-level staff qualifications and requirement to achieve 80 hours of training every two years. Job classifications contain minimum requirements for education, coursework, work experience, knowledge, and skills necessary to conduct audits. Auditors perform challenging and innovative work to improve the economy, efficiency, and effectiveness of City government services and programs. This position requires the ability to collect, compile, analyze, interpret and present data, and draft audit findings. In the City of San Diego, Auditor's:

- Analyze City programs, departments, budgets, and complex processes to identify areas of efficiency and effectiveness.
- Identify areas of risk and evaluate internal controls over financial reporting.
- Develop and execute audit programs to identify and document areas for improvement.
- Assist in audit planning, conduct field work, and document audit steps and working papers.
- Use specialized data analysis techniques and approaches to analyze agency performance.
- Apply knowledge of budgeting, public administration, and generally accepted governmental auditing standards.
- Develop and communicate audit findings to staff, including identifying recommendations to address audit issues.
- Negotiate and assist in the resolution of audit issues.
- Write reports to the San Diego City Council identifying audit findings and recommendations.
- Maintain a professional rapport with management and work to ensure recommendations are implemented.

Minimum qualifications include any combination of training and experience equivalent to completion of advanced undergraduate coursework in accounting, business or public administration or related field from an accredited college or university with at least eighteen semester units of accounting, finance or economics, and two years of professional performance auditing, analytical or policy work experience. An advanced degree or professional certification may be substituted for the required years of professional experience. Proficiency in MS Word, Excel, PowerPoint, and Access is required. Advanced data analysis skills are highly desirable.

Auditors performing work under GAGAS, including planning, directing, performing field work, or reporting on an audit or attestation engagement under GAGAS, should maintain their professional competence through continuing professional education (CPE). Therefore, each auditor performing work under GAGAS should complete, every 2 years, at least 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. For auditors who are involved in any amount of planning, directing, or reporting on GAGAS assignments and those auditors who are not involved in those activities but charge 20 percent or more of their time annually to GAGAS assignments should also

obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every 2-year period) that enhances the auditor's professional proficiency to perform audits or attestation engagements. Auditors required to take the total 80 hours of CPE should complete at least 20 hours of CPE in each year of the 2-year period.

In the event the Office of the City Auditor utilizes the services of external specialists to assist in performing GAGAS assignments, the City Auditor or his designee will assess the professional qualifications of such specialists and document their findings and conclusions.

Office of the City Auditor Training Policy and Guidelines

All auditors are required to comply with GAGAS continuing professional education requirements. The current two-year training cycle began on July 1, 2008. See page 30 for the Office of the City Auditor Training Policy.

Quality Control and Assurance

Each audit organization performing audits or attestation engagements in accordance with GAGAS must:

- establish a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements, and
- have an external peer review at least once every three years.

The audit organization should analyze and summarize the results of its monitoring procedures at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action

Office of the City Auditor Policy on Quality Control

The key components of the internal quality control program are: (a) Supervisory review of all audits and working papers, see page 33; (2) City Auditor review of completed audits see page 35; (3) Independent Report Review of final draft report, see page 36; monitoring of quality procedures, see page 36 (4) Audit Standards Plan form completed for each audit engagement to document compliance with GAGAS, see page 37; and (5) a peer review conducted every three years. The signature page of the Audit Standards Plan documents the review and approval at each quality control checkpoint.

On annual basis, audit management will review its monitoring of quality procedures and analyze and summarize the results at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action. The results of this review should be documented in the Annual Results of Monitoring Procedures Review Form.

Peer Review Program

The City's prior Audit Division participated in an external quality control review program, such as the program conducted by the Association of Local Government Auditors (ALGA). The most recent review was performed in 2005 and covered audits completed between July 2001 and June 2004. Logically, the next peer review should cover audits issued between July 2004 and June 2007, with a subsequent review to be conducted every three years thereafter. However, based on guidance from ALGA's Review committee, the Office of the City Auditor can be considered a new organization given the charter change in July 2008; the lack of a previous City requirement to follow government auditing standards; and past practice of not citing standards in audit reports.

As a result, the time period for the Office first peer review should cover the period of July 2008 to June 2011. However, it is expected that the first peer review will be conducted a year early to ensure compliance with GAGAS.

The Office of the City Auditor will transmit its external peer review reports to the Audit Committee and City Council. The peer review report and any letter of comment will also be posted on the City Auditor's website and a copy of the reports will be made available to the public upon request.

Office of the City Auditor Policy on Peer Review

The policy is to comply with the external peer review requirement by having an external peer review at least every three years. The peer review could be done through a professional association, such as the Association of Local Government Auditors, or through an outside auditing firm. The results of the peer review will be presented to the Audit Committee and the report posted on the City Auditor's Website.

**Annual Independence Statement
Office of the City Auditor
City of San Diego**

To be completed by all audit staff, including consultants:

Regarding the audits listed on the annual audit workplan for fiscal year 20__ ²		Yes	No
1.	Do you have any official, professional, financial or personal relationships with anyone that might limit the extent of inquiry or disclosure, or weaken audit findings in any way?		
2.	Do you have any preconceived ideas toward individuals, groups, organizations or objectives of a particular program that could bias the audit?		
3.	Have you had previous involvement in a decision making or management capacity that would affect current operations of the entity or program being audited?		
4.	Do you have political or social biases that result from employment in, or loyalty to, a particular group, organization, or level of government?		
5.	Have you previously approved invoices, payrolls, claims, and other proposed payments for the entity being audited?		
6.	Have you previously maintained the official accounting records of the entity being audited?		
7.	Do you have a direct or substantial indirect financial interest in the audited entity or program?		

I have been advised that during any audit to which I am assigned, I will be alert for fraud, abuse or illegal acts. If such acts are detected, I will notify the supervising auditor at once.

I have been advised that during the course of the audit, if any personal, external, or organizational impairments occur that may affect my ability to do the work and report findings impartially, I will notify the City Auditor or the supervising auditor promptly.

I have been informed of and am familiar with the policies and procedures regarding independence and objectivity.

If "yes" is marked in any box, please complete the following section.

To be completed by	Question	Response
Audit staff	List any personal impairments .	
City Auditor	Can the impairments be mitigated? If so, explain how and justify the assignment.	

Auditor's Signature: _____

Date: _____

City Auditor's Signature: _____

Date: _____

² Attach audit workplan to this form.

**Assessment of Nonaudit Services Form
Office of the City Auditor
City of San Diego**

Requested non-audited service: _____

Person Requesting non-audited service: _____

The following two overarching principles apply when assessing the impact of performing a nonaudit service for an audited program or entity:

- 1) audit organizations must not provide nonaudit services that involve performing management functions or making management decisions; and
- 2) audit organizations must not audit their own work or provide nonaudit services in situations in which the nonaudit services are significant or material to the subject matter of the audits.

Nonaudit Services

There are three categories of nonaudit services. They include the following:

- A. Nonaudit services that do not impair the audit organization's independence with respect to the entities it audits and, therefore, do not require compliance with the supplemental safeguards in paragraph 3.30. (See paragraphs 3.26 and 3.27.)
- B. Nonaudit services that would not impair the audit organization's independence with respect to the entities it audits as long as the audit organization complies with the supplemental safeguards in paragraph 3.30. (See paragraph 3.28.)
- C. Nonaudit services that do impair the audit organization's independence. Compliance with the supplemental safeguards will not overcome this impairment. (See paragraph 3.29.)

Check the applicable category

Category A Nonaudit Services That Do Not Impair Independence

Nonaudit services in which auditors provide technical advice based on their technical knowledge and expertise do not impair auditor independence with respect to entities they audit and do not require the audit organization to apply the supplemental safeguards. However, auditor independence would be impaired if the extent or nature of the advice resulted in the auditors' making management decisions or performing management functions.

Examples of the types of services considered as providing technical advice include the following:

- ☐ participating in activities such as commissions, committees, task forces, panels, and focus groups as an expert in a purely advisory, nonvoting capacity to **(1)** advise entity management on issues based on the auditors' knowledge or **(2)** address urgent problems;

- providing tools and methodologies, such as guidance and good business practices, benchmarking studies, and internal control assessment methodologies that can be used by management; and
- providing targeted and limited technical advice to the audited entity and management to assist them in activities such as (1) answering technical questions or providing training, (2) implementing audit recommendations, (3) implementing internal controls, and (4) providing information on good business practices.

Category B Nonaudit Services That Do Not Impair Independence But Require Safeguards

Services that do not impair the audit organization's independence with respect to the entities they audit so long as they comply with supplemental safeguards include the following:

- providing basic accounting assistance limited to services such as preparing draft financial statements that are based on management's chart of accounts and trial balance and any adjusting, correcting, and closing entries that have been approved by management; preparing draft notes to the financial statements based on information determined and approved by management; preparing a trial balance based on management's chart of accounts; maintaining depreciation schedules for which management has determined the method of depreciation, rate of depreciation, and salvage value of the asset (If the audit organization has prepared draft financial statements and notes and performed the financial statement audit, the auditor should obtain documentation from management in which management acknowledges the audit organization's role in preparing the financial statements and related notes and management's review, approval, and responsibility for the financial statements and related notes in the management representation letter. The management representation letter that is obtained as part of the audit may be used for this type of documentation.);
- providing payroll services when payroll is not material to the subject matter of the audit or to the audit objectives. Such services are limited to using records and data that have been approved by entity management;
- providing appraisal or valuation services limited to services such as reviewing the work of the entity or a specialist employed by the entity where the entity or specialist provides the primary evidence for the balances recorded in financial statements or other information that will be audited; valuing an entity's pension, other post-employment benefits, or similar liabilities provided management has determined and taken responsibility for all significant assumptions and data;
- preparing an entity's indirect cost proposal or cost allocation plan provided that the amounts are not material to the financial statements and management assumes responsibility for all significant assumptions and data;
- providing advisory services on information technology limited to services such as advising on system design, system installation, and system security if management, in addition to the safeguards in paragraph 3.30, acknowledges responsibility for the design, installation, and internal control over the entity's system and does not rely on the auditors'

work as the primary basis for determining (1) whether to implement a new system, (2) the adequacy of the new system design, (3) the adequacy of major design changes to an existing system, and (4) the adequacy of the system to comply with regulatory or other requirements;

- ☐ providing human resource services to assist management in its evaluation of potential candidates when the services are limited to activities such as serving on an evaluation panel of at least three individuals to review applications or interviewing candidates to provide input to management in arriving at a listing of best qualified applicants to be provided to management; and
- ☐ preparing routine tax filings based on information provided by the audited entity.

Category C Nonaudit Services That Impair The Organization's Independence.

Compliance with supplemental safeguards will not overcome independence impairments in this category. By their nature, certain nonaudit services directly support the entity's operations and impair the audit organization's ability to meet either or both of the overarching independence principles in paragraph 3.22 for certain types of audit work. Examples of the types of services under this category include the following:

- ☐ maintaining or preparing the audited entity's basic accounting records or maintaining or taking responsibility for basic financial or other records that the audit organization will audit;
- ☐ posting transactions (whether coded or not coded) to the entity's financial records or to other records that subsequently provide input to the entity's financial records;
- ☐ determining account balances or determining capitalization criteria;
- ☐ designing, developing, installing, or operating the entity's accounting system or other information systems that are material or significant to the subject matter of the audit;
- ☐ providing payroll services that (1) are material to the subject matter of the audit or the audit objectives, and/or (2) involve making management decisions;
- ☐ providing appraisal or valuation services that exceed the scope described in paragraph 3.28 c;
- ☐ recommending a single individual for a specific position that is key to the entity or program under audit, otherwise ranking or influencing management's selection of the candidate, or conducting an executive search or a recruiting program for the audited entity;
- ☐ developing an entity's performance measurement system when that system is material or significant to the subject matter of the audit;

- ☐ developing an entity's policies, procedures, and internal controls;
- ☐ performing management's assessment of internal controls when those controls are significant to the subject matter of the audit;
- ☐ providing services that are intended to be used as management's primary basis for making decisions that are significant to the subject matter under audit;
- ☐ carrying out internal audit functions, when performed by external auditors; and
- ☐ serving as voting members of an entity's management committee or board of directors, making policy decisions that affect future direction and operation of an entity's programs, supervising entity employees, developing programmatic policy, authorizing an entity's transactions, or maintaining custody of an entity's assets.

Assessment

If Category A is marked, proceed with the requested nonaudit service.

If Category B is marked, proceed with the requested nonaudit service, so long the following supplemental safeguards are followed. These include

- a. documenting our consideration of the nonaudit services, including our conclusions about the impact on independence;
- b. establishing in writing an understanding with the audited entity regarding the objectives, scope of work, and product or deliverables of the nonaudit service; and management's responsibility for (1) the subject matter of the nonaudit services, (2) the substantive outcomes of the work, and (3) making any decisions that involve management functions related to the nonaudit service and accepting full responsibility for such decisions;
- c. excluding personnel who provided the nonaudit services from planning, conducting, or reviewing audit work in the subject matter of the nonaudit service; and
- d. not reducing the scope and extent of the audit work below the level that would be appropriate if the nonaudit service were performed by an unrelated party.

If Category C is marked, decline the requested the non-audit service. If requested to perform nonaudit services that impair the City Auditor's ability to meet either or both of the overarching independence principles for certain types of audit work, the City Auditor should inform the requestor and the audited entity that performing the nonaudit service would impair the City Auditors' independence with regard to subsequent audit or attestation engagements.

NONAUDIT SERVICE APPROVAL

To be completed by the City Auditor:

I Approve / Disapprove the assignment

Further, I certify that we (1) will not audit our own work; (2) are not performing any management functions or making any management decisions relative to the auditee; and (3) are not providing nonaudit services that are significant or material to the subject matter of any ongoing audit.

Signature

Office of the City Auditor
Training Policy and Guidelines

Purpose

- Ensure that all Office of the City Auditor employees receive the necessary training to optimize job performance.
- Establish quality control procedures to ensure compliance with the Continuing Professional Education (CPE) requirements mandated by the U.S. Government Accountability Office (GAO) Government Auditing Standards.
- Establish educational training requirements with learning objectives designed to maintain or enhance employees' competency, knowledge, skills, and abilities in areas applicable to performing audits, attestation engagements, and other technical job related activities for the Office of the City Auditor.
- Support staff in their career development.

Policy

The 2007 GAO Government Auditing Standards requires auditors performing governmental audits to complete at least 80 hours of CPE each 2 year period to enhance professional competence and proficiency. The Government Auditing Standards also requires at least 24 of the 80 hours of CPE to be earned in one of the 2 years, and be directly related to government auditing, the government environment or the specific or unique environment in which the audited entity operates. The City Auditor has adopted the policy that all staff auditors will meet this CPE requirement. The City will provide the required CPE by sending auditors to training sponsored by appropriate professional organizations, providing the CPE training in-house, and using other methods as appropriate.

Scope

- This training program applies to all employees of the City Auditor that engage in performing audits.
- The primary focus for this training program is to develop and enhance the participants' knowledge, skills, and abilities in areas applicable to performing audits or attestation engagements; however, training may be provided in various other areas such as ethics, and personal development that increases competence.

Goals and Procedures

CPE topics may include but are not limited to audit methodology, accounting, assessment of internal controls, risk assessment, detection of fraud, investigative auditing, performance auditing, operational auditing, financial auditing and disclosure, statistical sampling, evaluation design, data analysis, public administration, City policy and structure, economics, social sciences, personal development, computer

applications, and principles of management and supervision. The following should also be considered when deciding whether a program qualifies for CPE credits.

- The training should contribute to the auditors' proficiency to perform or supervise an audit or increase competence.
- The training program should establish the education and experience level needed for participation.
- The training program objectives should specify the level of expected knowledge or competence upon completion of the program.
- The information presented should be current and substantive.
- The program should be designed and developed by those knowledgeable in the subject matter and instruction/education design.
- Instructors should be knowledgeable with program content and teaching methods.
- When appropriate, evaluation or assessment activities should be part of the program.

The following are different categories of programs available for CPE credits. Generally, 50 minutes of training = **1 Hour of CPE credit**.

- Internal training programs that meet the qualifications for CPE.
- Meetings or seminars of professional organizations that meet the qualifications for CPE.
- College courses that enhance professional competence and proficiency – 1 semester unit = 15 CPE credits, 1 quarter unit = 10 Hours of CPE credits.
- External education and training programs sponsored by professional organizations that qualify for CPE. Professional organizations include but are not limited to the Institute of Internal Auditors, Association of Local Government Auditors, American Institute of Certified Public Accountants, Association of Certified Fraud Examiners, Information Systems Audit and Control Association, and the Government Accounting Standards Board.
- Speaking engagements and formal instruction that qualify for CPE. 1 presentation hour (50 minutes) = 3 Hours of CPE credits (1 credit for presentation and 2 credits for preparation) **Limit 40 CPE each 2 year period, limited to 1 time every 2 years for repeated programs.**
- Individual study programs such as correspondence courses, self-study guides, video tapes, audio cassette, and computer courses that meet the qualifications for CPE.

Maintaining and continuously improving professional competence is primarily the responsibility of each individual auditor. Each auditor should seek opportunities for training and professional development, participate in training provided by the City, and maintain the training documentation required under this policy.

- A Training Logbook (Excel Workbook) will be kept on a shared hard drive to track compliance with the Government Auditing Standards CPE requirements. The

Training Logbook is located at "F:\HOME_SYS\SEC-AUD\CPE\Training Logbook". A new Logbook will be created after each 2 year period, and each auditor will have a separate tab on the Logbook to enter training information. In addition, a shared Training Binder will be maintained by City Auditor management to keep documentation verifying the successful completion of CPE (e.g. Certificates of Completion, Reports of Grades, etc). Each auditor will have a tab in the Training Binder. The Office shall maintain individual employee files for auditors which include resumes and evidence of training records.

- After completing CPE provided by the City, each auditor will provide evidence of training and certificates to verify successful completion.

It is the responsibility of City Auditor management to maintain quality control procedures to ensure auditors are in compliance with the CPE and staff competence requirements mandated by Government Auditing Standards.

- Periodically, City Auditor management will review the CPE recorded in the Training Logbook and the corresponding documentation kept in the Training Binder to verify the successful completion of CPE, and to ensure each auditor will receive training to be in compliance the Government Auditing Standards CPE requirements.
- City Auditor management will continually assess the skill level needed to fulfill the scope of audit projects and provide audit staff with the training necessary to meet those needs.
- Staff will be encouraged and supported to successfully complete the requirements to obtain professional certification designations such as Certified Internal Auditor, Certified Public Accountant, Certified Fraud Examiner, and/or other professional certification designations.

**CITY OF SAN DIEGO
OFFICE OF THE CITY AUDITOR**

SUPERVISORY REVIEW

Purpose

To ensure that all audit reports are supported by evidence documented in the audit workpapers; opinions and conclusions are logical and consistent; and all applicable GAGAS standards were met.

Background

The Supervising Auditor review ensures that the quality control reviews are performed on time and adequately documented. Supervisory review usually consists of continuous review of audit work and working papers

Procedure

Supervisory review includes:

- (a) attendance at team meetings to monitor audit progress;
- (b) participation at the preliminary survey meeting to discuss potential risk exposures of organizational unit under review and define areas that warrant audit attention;
- (c) participation at fieldwork meetings to review audit results and finalize draft outline;
- (d) review of key working papers; and
- (e) review of draft reports.

The Supervising Auditor Review includes the review of workpapers to ensure that the audit workpapers comply with the workpaper organization and control guidelines described in the Audit Manual and Government Auditing Standards. Subject to the approval of the City Auditor, the Supervising Auditor may delegate the review of workpapers to another member of the audit staff provided that person is sufficiently experienced and competent to perform the task(s).

The In-Charge/Supervising Auditor is responsible for ensuring that the audit is performed in accordance with Government Auditing Standards and the City Auditor Policies and Procedures Manual. The In-Charge Review includes assessing the requirements of the audit assignment.

**CITY OF SAN DIEGO
OFFICE OF THE CITY AUDITOR**

CITY AUDITOR REVIEW AND APPROVAL

Purpose

To document the City Auditor's ultimate responsibility for all audit work and audit products issued by the office

Background

The City Auditor's goal is to ensure that all audit products and audit work performed by Audit staff are accurate, timely, and complete and done in accordance to GAGAS. The City Auditor's signature on audit reports and memorandums attests that he has reviewed and approves of the audit findings, conclusions, and recommendations.

Procedure

The City Auditor's review and approval includes:

- A. Approval of audit scoping statement, completed risk assessment, and field work audit program;
- B. Review and approval of draft audit reports and memorandums;
- C. Participating in periodic team meetings to monitor audit progress;
- D. Participating at an end of preliminary survey meetings to discuss the audit scope statement and finalized risk assessment and audit program; and
- E. Participating at an end of field work meeting to review audit results and discuss draft outline.

**CITY OF SAN DIEGO
OFFICE OF THE CITY AUDITOR**

INDEPENDENT REPORT REVIEW

Purpose

To ascertain that every statement of fact in the audit report is supported by audit evidence documented in the audit workpapers and that opinions and conclusions are logical and consistent.

Background

The Independent Report Review is a critical quality control element in audit report processing. The reviewer's job is to examine the report's logic and facts. The reviewer is expected to verify every statement of fact by tracing it back to the supporting workpapers. The workpapers should reflect the details of the evidence and disclose how it was obtained.

Procedure

Supervising Auditor and City Auditor	1. Assign an auditor who was not involved in the audit project's fieldwork and report preparation to be the Independent Report Reviewer.
Audit Staff	2. Ascertain that audit workpapers provide adequate support to the audit work performed and the audit evidence gathered during the audit. Workpapers must have the required sign-offs. For each statement of fact , reference the audit report draft to the audit workpapers by noting the workpaper index number on the page margin next to each line. For statements of opinion or conclusion, write "OPINION" or "CONCLUSION" on the page margin next to the statement.
Independent Report Reviewer	3. Review the report's conceptual structure, spelling, grammar, and punctuation. Verify that facts flow logically into conclusions and recommendations. Trace every statement of fact to the supporting workpaper, including dates, numbers, percentages, computations, titles, proper names, quotes, and legal citations. If the statement of fact, opinion, or conclusion is acceptable, place a tickmark at the end of each line. Every numerical number or word for all numbers (e.g., dollar amount, year, or percent), dates, titles, and direct quotes must be tickmarked. Write all questions or comments in a Workpaper Review Sheet. Write a comment reference number next to each questioned item.
Audit Staff	4. Respond in writing (in the space provided in the Workpaper Review Sheet) to the Independent Report Reviewer's comments and questions. Make changes to the workpapers as necessary. Refer any audit report changes and unresolved items to the Supervising Auditor and the City Auditor.
Independent Report Reviewer	5. Review the audit staff's responses to the Workpaper Review comments. Cross out all comments or questions that are resolved.
City Auditor	6. Review and approve the audit report changes and decide on any unresolved issues.
Audit Staff	7. File the Workpaper Review Sheets in the audit workpapers.

Results of Annual Monitoring Procedures Review

Purpose: To document compliance with generally accepted government auditing standards requirement to review monitoring procedures.

Criteria: Government Auditing Standard specify that the audit organization should analyze and summarize the results of its monitoring procedures at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action. (GAS 3.54)

Requirement:

On annual basis, audit management will review its monitoring of quality procedures and analyze and summarize the results at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action.

Action:

Date of Review	Reviewer	Changes Yes or No?	Changes

**CITY OF SAN DIEGO
OFFICE OF THE CITY AUDITOR**

AUDIT STANDARDS REVIEW

Purpose

To ensure that the audit project complies with the U.S. Comptroller General's *Government Auditing Standards*.

Background

The Audit Standards Review occurs at the end of the report writing phase. The intent of the final review is to ascertain that the audit staff has complied with the applicable General Standards, Field Work Standards, and Reporting Standards as described in the **Audit Standards Plan**. See Appendix I for a copy of the Audit Standards Plan.

Procedure

Audit staff	1. Update the Audit Standards Plan to reflect the audit work performed upon completion of the Report Writing phase of the audit.
Audit Standards Plan Reviewer	2. Review the Audit Standards Plan for completeness. Write the review comments in an Audit Standards Review Worksheet.
Audit Staff	3. Address comments and make changes to the Audit Standards Plan or workpapers, if necessary. Refer any unresolved items to the Supervising Auditor and the City Auditor.
Supervising Auditor and City Auditor	4. Decide on any unresolved issues.
Audit Staff	5. File the Audit Standards Plan and the reviewer's comments in the audit workpapers.

Audit: _____

Job Code:_____

Audit Standards Plan

Office of the City Auditor
City of San Diego, CA

Purpose: The City Charter Article V Section 39.2 requires that we conduct audits in accordance to Generally Accepted Government Auditing Standards (GAGAS). In order to document compliance with GAGAS, an Audit Standards Plan form will be completed for each audit assignment; and independent review of the form will be performed.

Position	Signature	Date
Audit Standard Plan Preparer		
Audit Standard Plan Reviewer		
Independent Report Reviewer		
In-Charge Auditor		
Audit Manager (Supervisory Review and Approval of Audit Working Papers and Audit Evidence)		
City Auditor		

ETHICS		
<p>The information presented in the chapter on Ethical Principles in Government Auditing deals with fundamental principles and does not contain additional requirements. However, audit organizations may choose to establish procedures that align with the principles included in generally accepted government auditing standards (GAGAS).</p> <p>Because auditing is essential to government accountability to the public, the public expects audit organizations and auditors who conduct their work in accordance with GAGAS to follow ethical principles. Management of the audit organization sets the tone for ethical behavior throughout the organization by maintaining an ethical culture, clearly communicating acceptable behavior and expectations to each employee, and creating an environment that reinforces and encourages ethical behavior throughout all levels of the organization. The ethical tone maintained and demonstrated by management and staff is an essential element of a positive ethical environment.</p> <p>The ethical principles that guide the work of the auditors who conduct audits in accordance with GAGAS are: a. the public interest; b. integrity; c. objectivity; d. proper use of government information, resources, and position; and e. professional behavior. (GAS 2.01, 2.04 - 2.15)</p>	<p>The City Auditor and all audit staff are required to adhere to and follow the five key ethical principles. On an annual basis, the City Auditor and all audit staff will review the five ethical principles and attest in writing that they will adhere to and follow the identified principles. In the event, the City Auditor or audit staff cannot comply with or adhere to the identified principles, they should immediately notify their appointing authority of the circumstances involving the ethical principles</p>	<p>See main Audit Personnel Binder for copies of signed ethical principle statements.</p>
GENERAL STANDARD ON <u>INDEPENDENCE</u> :		
In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be free both in fact and appearance from personal, external, and organizational impairments to independence. (GAS 3.02)		
<p>1. Audit organizations are responsible for establishing an internal quality control system to assure compliance with the independence standard. Required elements of an internal quality control system include policies and procedures to (list document reference for your organization):</p> <ul style="list-style-type: none"> • Identify, report, and resolve personal impairments to auditors' independence (GAS 3.08) • Resolve personal impairment in a timely manner (GAS 3.09) • Report the impairment in the scope section of the report if the organization cannot resolve the impairment or decline to audit (GAS 3.04, 3.09) • Assess the specialists regarding their ability to perform the work and report impartially (GAS 3.05) • Notify appropriate parties of impairment issues identified after report issuance (GAS 3.06) • Communicating the policies and procedures and promoting understanding (GAS 3.08) • Monitoring compliance (GAS 3.08) • Establishing a disciplinary mechanism (GAS 3.08) • Stressing the importance of independence and expectation that auditors will always act in the public interest (GAS 3.08) • Maintaining documentation of the steps taken to identify potential personal independence impairments (GAS 3.08) <p>In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be free both in fact and appearance from personal, external, and organizational impairments to independence. (GAS 3.02)</p>	<p>To ensure compliance with the Independence Standard regarding personal and external impairments, all City Auditor staff will be required to sign an annual independence statement. An auditor will not be assigned to an audit with an existing impairment, unless the assignment is unavoidable and a justification is provided. Should an actual or perceived impairment arise during the course of an assignment, the auditor is responsible for advising the City Auditor immediately. In any impairment cannot be resolved, the auditor with the impairment must be removed from the audit, or the impairment must be reported in the scope section of the report.</p>	<p>See main Audit Personnel Binder for copies of signed independence statement.</p>

<p>2. Audit organizations must be free from external impairments to independence. External impairments may include: (a) limits or modifications on audit scopes, (b) interference with the selection or application of audit procedures or transactions, (c) restrictions on the time allowed to complete an audit, (d) restrictions on access to records or individuals needed to conduct the audit, (e) interference with assignment, appointment, compensation, and promotion of audit personnel, (f) restrictions on resources provided to the audit organization, (g) authority to overrule or influence the auditor's judgment, (h) threat of replacement over a disagreement with contents of an audit report, and (i) influences that jeopardize the auditors' continued employment. The audit organization's internal quality control system (described above) should include policies and procedures for resolving and reporting external impairments. (GAS 3.10-3.11)</p>	<p>Should an actual or perceived external impairment arise during the course of an assignment, the auditor is responsible for advising the City Auditor immediately. In any impairment cannot be resolved, the impairment must be reported in the scope section of the report</p>	<p>External Impairment noted in the report:</p> <p>___ None reported</p> <p>___ Yes See the impairment reported in the scope and methodology section of the audit report.</p>
<p>3. Audit organizations must be free from organizational impairments to independence. Impairments to independence result when the audit function is organizationally located within the reporting line of the areas under audit or when the auditor is assigned or takes on responsibilities that affect operations of the area under audit. Organizational independence can be achieved in various ways for external and internal audit organizations. (GAS 3.12)</p> <p>3A. <u>External audit organizations</u> are presumed to be free from organizational impairments if:</p> <ul style="list-style-type: none"> • at a level of government other than the one to which the audited entity is assigned; or • in a different branch of government within the same level of government as the audited entity; or • the audit organization's head is directly elected by voters; or • the audit organization's head is appointed or confirmed by a legislative body and subject to removal and accountable to a legislative body; or • the audit organization's head is appointed and accountable to a statutorily created governing body. (GAS 3.13-3.14) <p>There are other structures under which a government audit organization could be considered free from organizational impairments. If the structure is different than the ones listed above, statutory safeguards should be in place that:</p> <ul style="list-style-type: none"> • prevent the abolishment of the audit organization by the audited entity; • require that if the head of the audit organization is removed from office, the head of the agency should report this fact and the reasons for removal to the legislative body; • prevent the audited entity from interfering with the initiation, scope, timing, and completion of any audit; • prevent the audited entity from interfering with reporting on any audit; • require the audit organization to report to a legislative body or other independent governing body; • give the audit organization sole authority over the selection, retention, advancement, and dismissal of its staff, and; • grant access to records and documents that relate to the agency, program, or function being audited. <p>The audit organization should document the statutory provisions in place if it concludes that <u>all</u> the above</p>	<p>In the City of San Diego, auditor independence is established by City Charter Section 39.2, enacted by the voters on June 3, 2008. Section 39.2 of the City Charter created the Office of the City Auditor and specified the following:</p> <p>The City Auditor shall be appointed by the City Manager, in consultation with the Audit Committee, and confirmed by the Council. The City Auditor shall be a certified public accountant or certified internal auditor. The City Auditor shall serve for a term of ten years. The City Auditor shall report to and be accountable to the Audit Committee. Upon the recommendation of the Audit Committee, the City Auditor may be removed for cause by a vote of two-thirds of the members of the Council. The City Auditor shall be the appointing authority of all City personnel authorized in the department through the normal annual budget and appropriation process of the City, and subject to the Civil Service provisions of this Charter.</p> <p>The City Auditor shall prepare annually an Audit Plan and conduct audits in accordance therewith and perform such other duties as may be required by ordinance or as provided by the Constitution and general laws of the State. The City Auditor shall follow Government Auditing Standards. The City Auditor shall have access to, and authority to examine any and all records, documents, systems, and files of the City and/or other property of any City department, office, or agency, whether created by the Charter or otherwise. It is the duties of any officer, employee, or agent of the City having control of such records to permit access to, and examination thereof, upon the request of the City Auditor or his or her authorized representative. It is also the duty of any such officer, employee, or agent to fully cooperate with the City Auditor, and to make full disclosure of all pertinent information. The City Auditor may investigate any material claim of financial fraud, waste, or impropriety within any City Department and for that purpose may summon any officer, agent, or employee of the City, any claimant or other person, and examine him or her upon oath or</p>	<p>See http://www.sandiego.gov/city-clerk/officialdocs/legisdocs/charter.shtml</p>

<p>safeguards are met and provide documentation to the external peer reviewers. (GAS 3.15)</p>	<p>affirmation relative thereto. All City contracts with consultants, vendors or agencies will be prepared with an adequate audit clause to allow the City Auditor access to the entity's records needed to verify compliance with the terms specified in the contract. Results of all audits and reports shall be made available to the public subject to exclusions of the Public Records Act.</p>	
<p>3B. <u>Internal audit functions</u> are presumed to be organizationally independent if the head of the audit organization meets <u>all</u> the following criteria:</p> <ul style="list-style-type: none"> • is accountable to the head or deputy head of the government entity; • reports the results both to the head or deputy head of the government entity and those charged with governance, • is located organizationally outside the staff or line management function of the unit under review, • has access to those charged with governance, and; • is sufficiently removed from political pressure. (GAS 3.16) <p>The internal audit organization should report regularly to those charged with governance (GAS 3.17).</p> <p>The audit organization should document conditions in place that allow it to be free of organizational impairments to independence and provide the documentation to external peer reviewers (GAS 3.19)</p>	<p>Not applicable</p>	<p>Not applicable</p>
<p>4. Audit organizations that provide nonaudit services must evaluate whether providing the services creates an impairment to independence in fact or appearance with respect to the entities they audit. Policies and procedures and a quality control system should be established that address (GAS 3.20, 3.21):</p> <ul style="list-style-type: none"> • Consideration of the two overarching independence principles when assessing the impact of performing nonaudit services (GAS 3.22) • Evaluation of ongoing audits, planned audits, requirements for providing audits, and audit service policies (GAS 3.23) • Reporting impairments to the overarching principles with regard to subsequent audit or attestation engagements (GAS 3.24) • Determination of the type of nonaudit service and whether it impairs independence (GAS 3.25-3.29, 1.33, 1.34) • Application of supplemental safeguards, when required (GAS 3.30) 	<p>In consultation with the Audit Committee, the City Auditor will consider performing the requested non-audit service in the context of impact on the current audit workplan. Further to ensure compliance in maintaining independence while performing nonaudit services, City Auditor staff will complete a Nonaudit Assessment form. The City Auditor will decline requests to perform Nonaudit services that impair the audit organization's independence.</p>	<p>Nonaudit services provided related to this audit engagement:</p> <p>___ None provided</p> <p>___ Yes See w/p reference ___</p> <p>See non-audit services binder that documents all non-audit services considered and provided.</p>

GENERAL STANDARD ON PROFESSIONAL JUDGMENT: Auditors must use professional judgment in planning and performing audits and attestation engagements and in reporting the results. (GAS 3.31)		
<p>5. Professional judgment includes exercising reasonable care and professional skepticism:</p> <ul style="list-style-type: none"> Professional skepticism is an attitude that includes a questioning mind and a critical assessment of evidence. Professional skepticism includes a mindset in which auditors assume neither that management is dishonest nor of unquestioned honesty. Professional judgment may involve collaboration with other stakeholders, outside experts, and management in the audit organization. Using professional judgment is important in determining the required level of understanding of the audit subject matter and related circumstances. Auditors should document significant decisions affecting the audit's objectives, scope, and methodology; findings; conclusions; and recommendations resulting from professional judgment. (GAS 3.32-3.38) 	<p>The Audit Manual includes procedures for conducting audit planning, risk assessment, and audit fieldwork, as well as procedures for preparing workpapers and report writing. Evidence that the professional judgment standard was met should include completed and approved audit programs for audit planning, field work, and report writing. If any of the audit phases are not performed, a written justification for not doing so should be included in the workpapers. Also, included should be a signed ethical principle statement form documenting awareness of required behavior.</p> <p>For each audit done in accordance with GAGAS, auditors should complete an Audit Standards Plan. The Audit Standards Plan includes procedures to ensure that internal procedures and GAGAS are followed.</p>	<p>Preliminary Survey/ Risk Assessment _____</p> <p>Field Work Audit Program _____</p> <p>Report Writing Audit Program _____</p> <p>Ethical Principle Statements In the main Personnel Binder</p>
GENERAL STANDARD ON COMPETENCE: The staff assigned to perform the audit or attestation engagement must collectively possess adequate professional competence for the tasks required. (GAS 3.40)		
<p>6. Audit organization management should assess skill needs to consider whether its workforce has the essential skills that match those necessary to fulfill a particular audit mandate or scope of audits to be performed. (GAS 3.41)</p>	<p>The City Auditor assigns staff to the audit based on input from the Audit Manager. Staff assignments will be based on auditor availability, experience, knowledge, and familiarity with the audit subject. For each audit, a Staff Assignment Form will be completed to document assignment approval, and staff competence, see page 82.</p>	<p>See staff assignment form, w/p ____.</p>
<p>7. Audit organizations should have a process for recruitment, hiring, continuous development, assignment, and evaluation of staff to maintain a competent workforce. (GAS 3.41)</p>	<p>Job classifications contain minimum requirements for education, coursework, work experience, knowledge, and skills necessary to conduct audits. Auditors perform challenging and innovative work to improve the economy, efficiency, and effectiveness of City government services and programs. This position requires the ability to collect, compile, analyze, interpret and present data, and draft audit findings. In the City of San Diego, Auditor's:</p> <ul style="list-style-type: none"> Analyze City programs, departments, budgets, and complex processes to identify areas of efficiency and effectiveness. Identify areas of risk and evaluate internal controls over financial reporting. Develop and execute audit programs to identify and document areas for improvement. Assist in audit planning, conduct field work, and document audit steps and working papers. Use specialized data analysis techniques and approaches to analyze agency performance. Apply knowledge of budgeting, public administration, and generally accepted governmental auditing standards. 	<p>See main Audit Personnel Binder for individual employee's resume and training records.</p>

	<ul style="list-style-type: none"> • Develop and communicate audit findings to staff, including identifying recommendations to address audit issues. • Negotiate and assist in the resolution of audit issues. • Write reports to the San Diego City Council identifying audit findings and recommendations. • Maintain a professional rapport with management and work to ensure recommendations are implemented. <p>Minimum qualifications include any combination of training and experience equivalent to completion of advanced undergraduate coursework in accounting, business or public administration or related field from an accredited college or university with at least eighteen semester units of accounting, finance or economics, and two years of professional performance auditing, analytical or policy work experience. An advanced degree or professional certification may be substituted for the required years of professional experience. Proficiency in MS Word, Excel, PowerPoint, and Access is required. Advanced data analysis skills are highly desirable.</p> <p>Auditors performing work under GAGAS, including planning, directing, performing field work, or reporting on an audit or attestation engagement under GAGAS, should maintain their professional competence through continuing professional education (CPE). Therefore, each auditor performing work under GAGAS should complete, every 2 years, at least 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. For auditors who are involved in any amount of planning, directing, or reporting on GAGAS assignments and those auditors who are not involved in those activities but charge 20 percent or more of their time annually to GAGAS assignments should also obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every 2- year period) that enhances the auditor's professional proficiency to perform audits or attestation engagements. Auditors required to take the total 80 hours of CPE should complete at least 20 hours of CPE in each year of the 2-year period.</p>	
--	--	--

<p>8. The staff assigned to conduct an audit or attestation engagement under GAGAS must collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on that assignment. (GAS 3.43)</p>	<p>The standards require that staff assigned to perform the audit or attestation engagement must collectively possess adequate professional competence for the tasks required. Competence is derived from a blending of education and experience. Competencies are not necessarily measured by years of auditing experience because such a quantitative measurement may not accurately reflect the kinds of experiences gained by an auditor in any given time period. Maintaining competence through a commitment to learning and development throughout an auditor's professional life is an important element for auditors. Competence enables an auditor to make sound professional judgments. Audit management will assign staff to audits (financial, attestation, and performance), based on staff technical knowledge, skills, and experience.</p>	<p>See main Audit Personnel Binder for individual employee's resume and training records.</p> <p>See Staff Assignment Form, w/p ____</p>
<p>9. Auditors performing financial audits or attestation engagements should be knowledgeable in the relevant generally accepted accounting principles (GAAP), AICPA generally accepted auditing standards, AICPA attestation standards, Statements on Auditing Standards (SAS), Statements on Standards for Attestation Engagements (SSAE), and the application of these standards. If Auditors use GAGAS in conjunction with any other standards, they should be knowledgeable and competent in applying those standards. (GAS 3.44-3.45)</p>	<p>The standards require that staff assigned to perform the audit or attestation engagement must collectively possess adequate professional competence for the tasks required. Competence is derived from a blending of education and experience. Competencies are not necessarily measured by years of auditing experience because such a quantitative measurement may not accurately reflect the kinds of experiences gained by an auditor in any given time period. Maintaining competence through a commitment to learning and development throughout an auditor's professional life is an important element for auditors. Competence enables an auditor to make sound professional judgments. Audit management will assign staff to audits (financial, attestation, and performance), based on staff technical knowledge, skills, and experience.</p>	<p>Was this a financial or attestation engagement?</p> <p>____ No</p> <p>____ Yes, see main Audit Personnel Binder for individual employee's resume and training records. Staff Assignment Form, w/p ____</p>
<p>10. Each auditor performing work under GAGAS should complete, every 2 years, at least 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. Auditors involved in any amount of planning, directing, or reporting on GAGAS assignments and those auditors who spend 20 percent or more of their time annually to GAGAS assignments should also obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every 2 year period) that enhances the auditor's professional proficiency to perform audits or attestation engagements. (GAS 3.46)</p>	<p>The 2007 GAO Government Auditing Standards requires auditors performing governmental audits to complete at least 80 hours of CPE each 2 year period to enhance professional competence and proficiency. The Government Auditing Standards also requires at least 24 of the 80 hours of CPE to be earned in one of the 2 years, and be directly related to government auditing, the government environment or the specific or unique environment in which the audited entity operates. The City Auditor has adopted the policy that all staff auditors will meet this CPE requirement. The City will provide the required CPE by sending auditors to training sponsored by appropriate professional organizations or providing the CPE training in-house.</p>	<p>See main Audit Personnel Binder for individual employee's training records.</p>

<p>11. The audit organization should have quality control procedures to help ensure that auditors meet the continuing education requirements, including documentation of the CPE completed. (GAS 3.48)</p>	<p>It is the responsibility of City Auditor management to maintain quality control procedures to ensure auditors are in compliance with the CPE and staff competence requirements mandated by Government Auditing Standards.</p> <ul style="list-style-type: none"> At least every 4 months, City Auditor management will review the CPE recorded in the Training Logbook and the corresponding documentation kept in the Training Binder to verify the successful completion of CPE, and to ensure each auditor will receive training to be in compliance the Government Auditing Standards CPE requirements. City Auditor management will continually assess the skill level needed to fulfill the scope of audit projects and provide audit staff with the training necessary to meet those needs. Staff will be encouraged and supported to successfully complete the requirements to obtain professional certification designations such as Certified Internal Auditor, Certified Public Accountant, Certified Fraud Examiner, and/or other professional certification designations. 	<p>See main Audit Personnel Binder for individual employee's training records.</p>
<p>12. External specialists assisting in performing a GAGAS assignment should be qualified and maintain professional competence in their areas of specialization but are not required to meet the GAGAS CPE requirements. Auditors should assess the professional qualifications of such specialists and document their findings and conclusions. (GAS 3.49)</p>	<p>In the event the Office of the City Auditor utilizes the services of external specialists to assist in performing GAGAS assignments, the City Auditor or his designee will assess the professional qualifications of such specialists and document their findings and conclusions.</p>	<p>Were external specialists utilized in this audit?</p> <p>___ No ___ Yes, see w/p ___</p>
<p>GENERAL STANDARD ON QUALITY CONTROL AND ASSURANCE</p>		
<p>Each audit organization performing audits or attestation engagements in accordance with GAGAS must:</p> <ol style="list-style-type: none"> establish a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements, and have an external peer review at least once every 3 years. (GAS 3.50) 	<p>The key components of the internal quality control program are: (a) Supervisory review of all audits and working papers, see page 33; (2) City Auditor review of completed audits; (3) Independent Report Review of final draft report,; (4) Audit Standards Plan Questionnaire completed for each audit engagement to document compliance with GAGAS; and (5) a peer review conducted every three years. The signature page of the Audit Standards Plan documents the review and approval at each quality control checkpoint.</p>	<p>See the following documents:</p> <p>Independent Report Review _____</p> <p>Audit Standard Plan, include the sign-off sheet on page.</p>

<p>13. Each audit organization must document its quality control policies and procedures and communicate those policies and procedures to its personnel. The audit organization should document compliance with its quality control policies and procedures and maintain such documentation for a period of time sufficient to enable those performing monitoring procedures and peer review to evaluate the extent of the audit organization's compliance with its quality control policies and procedures. Policies and procedures should collectively address:</p> <ul style="list-style-type: none"> a. Leadership responsibilities for quality within the audit organization b. Independence, legal, and ethical requirements c. Initiation, acceptance, and continuance of audit and attestation engagements d. Human resources e. Audit and attestation engagement performance, documentation, and reporting, and f. Monitoring of quality. (GAS 3.52-3.53) 	<p>The Office of the City Auditor's quality control policies and procedures are document in Section 3 of the Audit Management. Specifically, the completion of an Audit Standard Plan for each review documents compliance with Generally Accepted Government Auditing Standards.</p>	<p>See Section 3 of the Audit Manual and the completed Audit Standard Plan.</p>
<p>14. The audit organization should analyze and summarize the results of its monitoring procedures at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action. (GAS 3.54)</p>	<p>On annual basis, audit management will review its monitoring of quality procedures and analyze and summarize the results at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action.</p>	<p>See the Results of Annual Monitoring Procedures Review form.</p>
<p>15. Audit organizations performing audits and attestation engagements in accordance with GAGAS must have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years. The review should be sufficient in scope to provide a reasonable basis for determining whether, for the period under review, the reviewed audit organization's system of quality control was suitably designed and whether the audit organization is complying with its quality control system in order to provide the audit organization with reasonable assurance of conforming with applicable professional standards. (GAS 3.55-3.56)</p>	<p>The policy is to comply with the external peer review requirement by having an external peer review every three years. The peer review could be done through a professional association, such as the Association of Local Government Auditors, or through an outside auditing firm.</p>	<p>Based on guidance from ALGA's Review committee, the Office of the City Auditor can be considered a new organization given the proposed charter change; the lack of a previous City requirement to follow government auditing standards; and past practice of not citing standards in audit reports.</p> <p>As a result, the time period for the Office first peer review will cover the period of January 2008 to December 2010. It is expected that the peer review will be conducted in 2011.</p>
<p>16. An external audit organization should make its most recent peer review report publicly available; for example, by posting the peer review report on an external Web site or to a publicly available file designed for public transparency of peer review results. (GAS 3.61)</p>	<p>The results of the peer review will presented to the Audit Committee and the report posted on the City Auditor's Website.</p>	<p>When the peer review is completed in 2011, the report will be posted on the City Auditor's website: http://www.sandiego.gov/auditor/</p>
<p>STANDARDS FOR PERFORMANCE AUDITS FIELD WORK STANDARDS FOR PERFORMANCE AUDITS: PLANNING</p>		
<p>34. Auditors must plan and document audit work necessary to define the audit objectives, scope and methodology such that their work will provide reasonable assurance that sufficient, appropriate evidence will support their conclusions. The concepts of reasonable assurance, significance and audit risk provide a framework for applying the performance audit fieldwork standards. In this context, significance means relative importance and audit risk means the possibility that conclusions are inaccurate or incomplete due to inadequate evidence, misrepresentation or fraud, or failure to detect mistakes, inconsistencies or significant errors. Auditors exercise professional judgment in applying these concepts. Auditors should assess significance and audit risk when defining the audit objectives and scope. Auditors should use the information gained in planning to assess significance and audit risks and design audit methodology to reduce audit risk while meeting the audit objectives. (GAS 7.06-7.10)</p>	<p>Audit planning is a comprehensive process that includes a preliminary survey and risk assessment. The purpose of audit planning process is to generate information and ideas to better understand the audit subject, determine the audit objective, and to develop the audit field work program. Planning also involves estimating the time and resources necessary to complete the audit. The evidence gathered in background research and later fieldwork is documented in the working papers. Key outputs of audit planning include an audit background memorandum; audit scope statement; risk and vulnerability assessment document; and field work audit program.</p>	<p>Preliminary Survey/ Risk Assessment Audit Program ____</p> <p>Audit Background Memorandum w/p ____</p> <p>Audit Scope Statement, w/p ____</p> <p>Risk and Vulnerability Assessment Document, w/p ____</p>

<p>35. To the extent relevant to the audit objectives, auditors should assess significance and audit risk by gaining an understanding of the:</p> <ul style="list-style-type: none"> • Nature of the program and needs of potential users (GAS 7.11a; 7.13) • Design and implementation of internal controls (GAS 7.11b; 7.16) • Design and implementation of information system controls (GAS 7.11c; 7.24; 7.27) • Legal and regulatory requirements, contract provisions and/or grant agreements (GAS 7.11d; 7.28) • Potential for fraud and abuse (GAS 7.11e; 7.30) • Results of previous audits (GAS 7.11e; 7.36) 	<p>In the Office of the City Auditor, audit risk will be assessed in the audit planning phase of the audit and quality control component of the audit process. Once an entrance conference has been held, the in-charge auditor obtains and reviews <u>relevant</u> information related to the audit request. This may include obtaining information regarding the auditee's mission, goals and objectives, organizational structure, policies and procedures, processes, resources, outputs, and outcomes. The auditor's goal is to understand the program to be audited and to finalize the audit objectives. To accomplish these tasks, auditors should undertake a preliminary audit program to do the following:</p> <ul style="list-style-type: none"> • Review any resolution, committee and Independent Budget Analyst reports, testimony, and other pertinent documents, such as committee hearing notes and reports relating to the audit subject; • Review the City Charter, ordinances, contracts, grant agreements, program memoranda, annual reports, recent budget requests, testimony, internal reports, policy and procedure manuals, and organizational charts relating to the audit subject; • Review relevant literature, including identifying criteria and related audits conducted by other local government auditors; • Interview agency staff; • Review agency files and key memorandums and reports related to the audit; • Observe and document agency activities related to the audit; • Review the results of previous audits and attestation engagements that directly relate to the current audit objectives. 	<p>See Field Work Audit Program ____</p> <p>See Audit Background Memorandum ____</p>
<p>36. To the extent relevant to the audit objectives, auditors should identify potential criteria and sources of evidence and evaluate whether to use the work of other auditors or experts (GAS 7.12 a-c; 7.37; 7.39; 7.41).</p>	<p>Upon completion of the Audit Background Memorandum, the in-charge auditor will develop a Scoping Statement, see page 53. The purpose of the Scoping Statement is to document and define the audit scope by establishing key audit questions to answer, identifying potential sources of evidence, and developing an audit budget. This process is intended to keep the planning process to a minimum by focusing on what we are going to do, why we are going to do it, and how we are going to do it. If done properly, the scoping work will help the team focus its risk assessment work around the tentative scope, methodology and objectives of the audit. The supervisor and in-charge auditor submit the Scoping Statement to the City Auditor for approval and review. A meeting will be held to discuss the scoping statement and the Audit Background Memorandum</p>	<p>See audit scoping statement w/p ____</p>

<p>37. Based on assessment of the information gained, auditors should determine the type and amount of evidence needed to obtain sufficient, appropriate evidence to address the audit objectives. When auditors conclude that sufficient, appropriate evidence is not available, auditors should evaluate whether internal control or other program weaknesses are the cause. (GAS 7.40)</p>	<p>Audit Scoping Statement questions 9, 10, and 13 are designed to document the type and source of data needed to complete the audit.</p>	<p>See audit scoping statement w/p ____</p>
<p>38. Auditors should extend audit procedures when there are indications that fraud or abuse significant to the audit objectives may have occurred. If the potential fraud is not significant to the audit objectives, auditors may conduct additional work as a separate engagement or refer the matter to other parties with oversight responsibility. Don't interfere with legal proceedings or investigations. (GAS 7.32; 7.34-35)</p>	<p>Auditors should extend audit procedures when there are indications that fraud or abuse significant to the audit objectives may have occurred. Auditors should document in the working papers and audit program when audit procedures are extended. If the potential fraud is not significant to the audit objectives, auditors may conduct additional work as a separate engagement or refer the matter to other parties with oversight responsibility. In fraud-related situations, our policy will be not to interfere with legal proceedings or investigations.</p>	<p>Was fraud or abuse noted in the working papers or report?</p> <p>____ None reported</p> <p>____ Yes See w/p reference ____</p>
<p>39. Audit management should assign a sufficient number of appropriately skilled staff with competence to perform the audit, including staff and supervisors, providing for on-the-job training of staff, and engaging specialists when necessary (GAS 7.12d; 7.44-45)</p>	<p>The City Auditor assigns staff to the audit based on input from the Audit Manager. Staff assignments will be based on auditor availability, experience, knowledge, and familiarity with the audit subject. For each audit, a Staff Assignment Form will be completed to document assignment approval, and staff competence, see page 82. After staff are assigned to an audit, an initial team meeting is held with the City Auditor to share information, discuss strategy (such as which officials to contact), and learn of the auditor's expectations. The meeting helps to identify project issues, their significance to potential users of the audit report, the contribution the office can make, and the availability of data and resources, and whether a consultant is required for the project. The in-charge summarizes the meeting in a memo, obtains approval from the supervisor, and forwards a copy to the City Auditor.</p>	<p>See Staff Assignment Form, w/p ____</p>
<p>40. Auditors should communicate an overview of the objectives, scope and methodology, and timing of the performance audit to management of the audited entity, those charged with governance, and requestors as applicable. Auditors should document the communication and any process used to identify those who should receive communications. If an audit is terminated before it is completed and no audit report is issued, auditors should document results of their work to date and why it was terminated. (GAS 7.12e; 7.46-49)</p>	<p>Once the job start letter has been sent to the auditee, the in-charge auditor will schedule an entrance conference to meet with the agency head and key staff. At the entrance conference, the City Auditor will: (1) introduce the members of the audit team, including the Audit Supervisor (2) explain the audit objective, scope, and methodology, and general process and timetable for the audit work, including the agency's deadlines to respond to preliminary findings and to the preliminary draft; (3) gain an understanding of the protocol to be followed in contacting staff and requesting information; (4) if applicable, request work space and network connectivity for the audit, and (5) solicit the views and concerns of the agency head on the project. Audit staff must document the meeting results, including a list of meeting attendees.</p>	<p>See Job Start Letter w/p ____</p> <p>Entrance Conference w/p ____</p>

<p>41. Auditors must prepare a written audit plan for each audit. Auditors should update the plan as necessary. (GAS 7.12f; 7.50)</p>	<p>Based on the results of the scope review, preliminary survey, and risk assessment, the auditor develops an audit program that consists of the audit objectives, scope, methodology, and related concerns. The audit program includes detailed audit steps, tasks, and procedures to test if the identified controls or procedures the audited entity has in place to prevent, eliminate, or minimize identified threats are working as intended. The supervisor reviews the audit program and the City Auditor approves the document.</p> <p>Auditors should follow the Audit Procedure Guidelines listed on page 76-77 in developing the specific audit steps listed in the audit program. Specifically, based on the risk and vulnerability assessment, the in-charge auditor will write the audit program to determine if the controls or procedures the audited entity has in place to prevent, eliminate, or minimize identified threats are working as intended. As the audit progress, the audit staff should document the key decisions about the audit objectives, scope, and methodology.</p>	<p>See field work audit program, w/p _____</p>
<p>FIELD WORK STANDARDS FOR PERFORMANCE AUDITS: SUPERVISION</p>		
<p>42. Audit supervisors must properly supervise audit staff. Elements of supervision include directing and guiding staff members in conducting work and following standards, staying informed about significant problems encountered, reviewing the work performed before the audit report is issued, and providing effective on-the-job training. The nature and extent of the review of audit work may vary depending on a number of factors. Reviews of audit work should be documented. (GAS 7.52-7.80c)</p>	<p>The Supervising Auditor review ensures that the quality control reviews are performed on time and adequately documented. Supervisory review usually consists of continuous review of audit work and working papers. Supervisory review also helps ensure that all audit reports are supported by evidence documented in the audit workpapers; opinions and conclusions are logical and consistent; and all applicable GAGAS standards were met.</p> <p>Supervisory review includes:</p> <ul style="list-style-type: none"> (f) attendance at team meetings to monitor audit progress; (g) participation at the preliminary survey meeting to discuss potential risk exposures of organizational unit under review and define areas that warrant audit attention; (h) participation at fieldwork meetings to review audit results and finalize draft outline; (i) review of key working papers; and (j) review of draft reports. <p>The Supervising Auditor Review includes the review of workpapers to ensure that the audit workpapers comply with the workpaper organization and control guidelines described in the Audit Manual and Government Auditing Standards. Subject to the approval of the City Auditor, the Supervising Auditor may delegate the review of workpapers to another member of the audit staff provided that person is sufficiently experienced and competent to perform the task(s).</p>	<p>See the reporting structure documented in the organizational chart located at: http://www.sandiego.gov/auditor/aboutus/index.shtml</p> <p>See page 1 of Audit Standard Plan sign-off sheet for evidence of supervisory review of working papers.</p>

	The In-Charge/Supervising Auditor is responsible for ensuring that the audit is performed in accordance with Government Auditing Standards and the City Auditor Policies and Procedures Manual. The In-Charge Review includes assessing the requirements of the audit assignment.	
FIELD WORK STANDARDS FOR PERFORMANCE AUDITS: EVIDENCE		
43. Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions. Sufficiency refers to the amount of evidence gathered and presented. Appropriateness refers to the quality of evidence including its relevance to the audit objectives, reliability and validity. Auditors should evaluate whether the evidence taken as a whole is sufficient and appropriate for addressing the audit objectives and supporting findings and conclusions. Auditors should document their assessment. The specific steps to assess evidence will depend on the nature of the evidence, how it is used in the audit and the audit objectives. When auditors identify limitations or uncertainties in evidence that is significant to the audit findings and conclusions, auditors should apply additional procedures to strengthen the evidence, redefine the audit objectives or scope to eliminate the need to use the evidence, or revise the findings and conclusions such that supporting evidence is sufficient and appropriate. (GAS 7.55-57; 7.68; 7.70-71)	Audit Manual Section 6 covers the Office of the City Auditor's policy regarding audit evidence. Section 6 addresses elements critical to a successful fieldwork process including types and tests of evidence, conducting interviews, audit sampling, preparation of audit working papers, securing and disclosing working papers, testing for compliance, and developing preliminary findings.	See audit summary sheets, pages ____
FIELD WORK STANDARDS FOR PERFORMANCE AUDITS: DOCUMENTATION		
44. Auditors must prepare audit documentation related to planning, conducting and reporting for each audit before issuing the report. Documentation should provide enough detail for an experienced auditor to understand the nature, timing, extent and results of work; evidence obtained; sources of evidence; and auditors' conclusions and significant judgments including: <ul style="list-style-type: none"> objectives, scope, methodology of audit; work performed to support significant judgments and conclusions including descriptions of transactions and records examined; evidence of supervisory review; and support for findings, conclusions and recommendations (GAS 7.77-7.80) 	<p>Audit evidence is documented in audit working papers. Data gathered by audit staff include their own observations and measurements, questionnaires, structured interviews, direct observations, and computations.</p> <p>Data gathered by the auditee can be used by audit staff as part of their evidence. Audit staff may determine the validity and reliability of the data by direct tests of the data. The amount of such tests of the data can be reduced if a test of the effectiveness of the entity's controls over the validity and reliability of the data support the conclusion that the controls are effective. The nature and extent of testing of the data will depend on the significance of the data to support audit findings. Audit staff should document tests done regarding the reliability of the data obtained from the auditee.</p> <p>When the tests of data disclose errors in the data, or when audit staff are unable to obtain sufficient, competent, and relevant evidence about the validity and reliability of the data, audit staff may find it necessary to (1) seek evidence from other sources, (2) redefine the audit's objectives to eliminate the need to use the data, or (3) use the data, but clearly indicate the data's limitations and refrain from making unwarranted conclusions or recommendations.</p> <p>Evidence may also include data gathered by third parties. In some cases, these data may have been audited by others and in other cases, it may not be practical to obtain evidence of the data's validity and reliability. The use of un-audited third-party data in an audit report will depend on the data's significance to the audit findings.</p>	See audit working papers, binders

<p>45. Auditors should document departures from GAS requirements and the impact on the audit and auditors' conclusions (GAS 7.81)</p>	<p>Auditors should document in the working papers departures from GAS requirements and the impact on the audit and auditors' conclusions.</p>	<p>Did the auditors depart from GAS requirements?</p> <p>___ None reported</p> <p>___ Yes See w/p reference ___</p>
<p>46. Audit organizations should establish policies and procedures for safe custody, retention, retrieval and sharing of audit documentation to satisfy legal, regulatory and administrative requirements. For audit documentation that is retained electronically, the organization should establish information systems controls concerning accessing and updating documents. The audit organization should make documentation available to other auditors or reviewers upon request, subject to applicable laws and regulations. The audit organization should develop policies to deal with requests from outside parties for access to audit documentation. (GAS 7.82-84)</p>	<p>During the course of a project, the in-charge and team members are responsible for the safe custody of working papers. These materials must be protected from theft or destruction and be accessible only to authorized persons. As a general rule, working papers should not be left at the auditees' work site unless they can be secured under lock. As needed, sensitive or confidential materials may be placed in locked cabinets. To safeguard their data, auditors should back up their computer data files to a zip drive or disk as necessary.</p> <p>In order to comply with California State Government Code Section 36525 regarding retention and disclosure of audit working papers, the Audit Office policy will include the following:</p> <p>Retain all audit work papers on site for at least three years.</p> <ul style="list-style-type: none"> ● Retain workpapers in City storage for at least five years to comply with City retention policy. ● Retain financial or Federal grant related workpapers for at least seven years to comply with Federal regulations [Federal Register Volume 69 No.138]. <p>Withhold from public disclosure all information related to audits that are in progress and not yet completed.</p> <p>Withhold from public disclosure information that is collected in the course of audit work, but is not used to support a specific finding in the audit.</p> <p>At the City Auditor's discretion, hold confidential any information from anyone cooperating with an audit who has requested, in writing, that we do so.</p>	<p>See audit manual section 6 for the Office of the City Auditor's policies and procedures regarding working paper documentation.</p>

REPORTING STANDARDS FOR PERFORMANCE AUDITS: <u>REPORTING</u>		
<p>47. Auditors must issue audit reports communicating the results of each completed performance audit. Auditors should use a form of the audit report that is appropriate for its intended use and is in writing or in some other retrievable form. When audit organizations are subject to public records laws, auditors should determine whether those laws could impact the availability of certain reports (see GAS 8.42). The purposes of audit reports are (1) to communicate the results of audits to the appropriate officials; (2) make results less susceptible to misunderstanding; (3) make results available to the public, except when certain information may be classified or otherwise prohibited from general disclosure (see GAS 8.39); and (4) facilitate follow-up to determine whether appropriate corrective actions have been taken. (GAS 8.03-8.05)</p> <p>If an audit is terminated before it is completed and no audit report is issued, auditors should document results of their work to date and why it was terminated. (GAS 8.06)</p>	<p>Section 7 of the Audit Manual documents the report writing process, identifies GAGAS standards related to reporting for performance audits, and documents the Office of the City Auditor policies and procedures and steps related to developing and issuing an audit report. The reporting standards for performance audits relate to the form of the report, the report contents, and report issuance and distribution.</p> <p>Auditing standards require that auditors must issue audit reports communicating the results of each completed performance audit. The standards provide auditors flexibility in determining reporting format. Auditors should use a form of the audit report that is appropriate for its intended use and is in writing or in some other retrievable form. For example, auditors may present audit reports using electronic media that are retrievable by report users and the audit organization. The users' needs will influence the form of the audit report. Different forms of audit reports include written reports, letters, briefing slides, or other presentation materials. The City Auditor will decide on the most appropriate report format.</p>	<p>See audit report, w/p ____</p>
REPORTING STANDARDS FOR PERFORMANCE AUDITS: <u>REPORT CONTENTS</u>		
<p>48. Auditors should prepare audit reports that clearly describe in an unbiased manner (1) the objectives, scope (including limitations and constraints), and methodology of the audit; (2) the audit results, including findings, conclusions, and recommendations, as appropriate; (3) a statement about the auditors' compliance with GAGAS; (4) a summary of the views of responsible officials; and (5) if applicable, the nature of any confidential or sensitive information omitted. (GAS 8.08-8.13)</p>	<p>Auditors should prepare audit reports that contain (1) the objectives, scope, and methodology of the audit; (2) the audit results, including findings, conclusions, and recommendations, as appropriate; (3) a statement about the auditors' compliance with GAGAS; (4) a summary of the views of responsible officials; and (5) if applicable, the nature of any confidential or sensitive information omitted. The Audit Standards Plan will document compliance with these provisions. The published report should include an executive summary, mission statement describing the purpose and authority of the office, title page, transmittal letter, executive summary, table of contents, introductory material, background, findings, recommendations, notes, appendixes, and responses of the affected agencies.</p>	<p>See audit report:</p> <p>Objective, scope, and Methodology, page ____</p> <p>Findings, page ____</p> <p>Conclusions, page ____</p> <p>Recommendation page ____</p> <p>Compliance statement, page ____</p> <p>Responsible views, page ____</p> <p>If applicable, confidential or sensitive information omitted, page ____</p>

<p>49. In the audit report, auditors should present sufficient, appropriate evidence to support the findings and conclusions in relation to the audit objectives. Auditors should describe in their report limitations or uncertainties with the reliability or validity of evidence, should place their findings in perspective, should disclose significant facts relevant to the objectives of their work, and should report deficiencies in internal control that are significant within the context of the objectives of the audit. (GAS 8.08, 8.14-8.18)</p> <p>If after the report is issued, auditors discover that they did not have sufficient, appropriate evidence, they should communicate this information to appropriate officials, remove the report from any publicly accessible website, and determine whether to conduct additional audit work necessary to reissue the report with revised findings or conclusions. (GAS 8.07).</p>	<p>Audit Supervisor reviews the draft report by checking that evidence is accurate and sufficient and that the findings, conclusions, and recommendations are well-argued and supported.</p> <ul style="list-style-type: none"> ● Overall quality of the draft and its consistency with the reporting standards for content and presentation. ● Responsiveness to the assignment objectives. ● Soundness of the evidence supporting the findings and recommendations. ● Logic, reasonableness, and soundness of the argument supporting the findings and recommendations. ● Appropriateness, constructiveness, and specificity of recommendations. ● Professional quality of the writing and presentation. <p>Once the Supervisor's comments have been addressed, the report draft is submitted to the City Auditor for review.</p> <p>2. The City Auditor reviews the draft report for message content, readability, and tone. The in-charge auditor makes changes to the report draft as appropriate and submits the revised report draft back to the City Auditor for review. At this point, the report draft may undergo a separate editorial review.</p> <p>3. After the City Auditor approves the draft report for issuance, the draft report undergoes an Independent Report Review. As discussed in Section 3, the independent report review is an important component of our quality assurance program. It is a detailed word-by-word, line-by-line examination of an indexed office draft of the report to ensure that its contents are accurate and supported. The City Auditor or Supervisor assigns an audit staff member who has not worked on the project to verify the accuracy of the information and whether the evidence supports the contents of the draft. Once this process is complete, the in-charge will prepare the report for distribution, including proper formatting.</p>	<p>See Independent Report Review, w/p _____</p>
---	---	---

<p>50. Auditors should include in the audit report (1) the scope of their work on internal control and (2) any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed. Auditors should document and refer to any written communication regarding internal control deficiencies in the audit report if such communication is separate from the audit report. (GAS 8.19 - 8.20)</p>	<p>Auditors should include in the audit report (1) the scope of their work on internal control and (2) any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed. When auditors detect deficiencies in internal control that are not significant to the objectives of the audit, they may include those deficiencies in the report or communicate those deficiencies in writing to officials of the audited entity unless the deficiencies are inconsequential considering both qualitative and quantitative factors. Auditors should refer to that written communication in the audit report, if the written communication is separate from the audit report</p>	<p>See audit report, page ____</p>
<p>51. When auditors conclude, based on sufficient, appropriate evidence, that fraud, illegal acts, significant violations of provisions of contracts or grant agreements, or significant abuse either has occurred or is likely to have occurred, they should report the matter as a finding. (GAS 8.21-8.23)</p> <p>Auditors should report known or likely fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse directly to parties outside the audited entity when, (1) the entity fails to satisfy legal or regulatory requirements to report such information to external parties, and/or (2) when entity management fails to take timely and appropriate steps to respond to known or likely fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse.</p>	<p>When auditors conclude, based on sufficient, appropriate evidence, that fraud, illegal acts, significant violations of provisions of contracts or grant agreements, or significant abuse either has occurred or is likely to have occurred, they should report the matter as a finding.</p> <p>When auditors detect violations of provisions of contracts or grant agreements, or abuse that are not significant, they should communicate those findings in writing to officials of the audited entity unless the findings are inconsequential within the context of the audit objectives, considering both qualitative and quantitative factors. Determining whether or how to communicate to officials of the audited entity fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that is inconsequential is a matter of the auditors' professional judgment. Auditors should document such communications.</p> <p>When fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse either have occurred or are likely to have occurred, auditors may consult with authorities or legal counsel about whether publicly reporting such information would compromise investigative or legal proceedings. Auditors may limit their public reporting to matters that would not compromise those proceedings, and for example, report only on information that is already a part of the public record.</p>	<p>If applicable, see audit report, page ____</p>

<p>52. Auditors should report conclusions, as applicable, based on the audit objectives and the audit findings. Report conclusions are logical inferences about the program based on the auditors' findings, not merely a summary of the findings. (GAS 8.27)</p>	<p>Auditors should report conclusions, as applicable, based on the audit objectives and the audit findings. Report conclusions are logical inferences about the program based on the auditors' findings, not merely a summary of the findings. The strength of the auditors' conclusions depends on the sufficiency and appropriateness of the evidence supporting the findings and the soundness of the logic used to formulate the conclusions. Conclusions are stronger if they lead to the auditors' recommendations and convince the knowledgeable user of the report that action is necessary. All audit reports must have conclusions.</p>	<p>See report, page ____.</p>
<p>53. Auditors should recommend actions to correct problems identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. Auditors should make recommendations the flow logically from the findings and conclusions, are directed at resolving the cause of identified problems, and clearly state the actions recommended. (GAS 8.28 – 8.29)</p>	<p>Auditors should recommend actions to correct problems identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. Auditors should make recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified problems, and clearly state the actions recommended. Effective recommendations encourage improvements in the conduct of government programs and operations. Recommendations are effective when they are addressed to parties that have the authority to act and when the recommended actions are specific, practical, cost effective, and measurable.</p> <p>Recommendations should be specific and clear, and directed at resolving the cause of identified problems. Auditors should avoid using verbs such as, consider or may in report recommendations, but make recommendations that are action oriented. Recommendations should be made to improve operations or program effectiveness, or improve economy and effectiveness.</p>	<p>See audit report, recommendations on page, ____.</p>
<p>54. When auditors comply with all applicable GAGAS requirements, they should use the following language, which represents an unmodified GAGAS compliance statement, in the audit report to indicate that they performed the audit in accordance with GAGAS. (See paragraphs 1.12 and 1.13.)</p> <p><i>We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.</i></p> <p>When auditors do not comply with all applicable GAGAS requirements, they should include a modified GAGAS compliance statement in the audit report. (See paragraphs 1.12 and 1.13.) (GAS 8.08, 8.30 – 8.31)</p>	<p>All City Auditor reports will be done in accordance to GAGAS and will have the required statement in the Objective, Scope, and Methodology section of the audit report. In the event of non-compliance with any applicable GAGAS requirement, we should include a modified GAGAS compliance statement in the audit report. We can modify the above statement and indicate the standard that was not followed or specify that we did not follow GAGAS.</p>	<p>Standards statement is shown on report page, ____</p> <p>Was the statement modified? No ____ Yes ____ , see page ____</p>

<p>55. Providing a draft report with findings for review and comment by responsible officials of the audited entity and others helps the auditors develop a report that is fair, complete, and objective. Including the views of responsible officials results in a report that presents not only the auditors' findings, conclusions, and recommendations, but also the perspectives of the responsible officials of the audited entity and the corrective actions they plan to take. Obtaining the comments in writing is preferred, but oral comments are acceptable. Auditors should include in their report a copy of any written comments from responsible officials or a summary of the written or oral comments. Where appropriate, auditors should include an evaluation of the comments, and if auditors disagree with the comments, they should explain their reasons. Conversely, auditors should modify their report if they find the comments valid and supported with sufficient, appropriate evidence. (GAS 8.08, 8.32-8.37)</p>	<p>All audited entity officials will be provided ample opportunity to review and comment on draft audit reports. Once a draft audit report has been approved by the City Auditor and has undergone Independent Report Review, a draft report will be issued to management to discuss at an exit conference.</p> <p>The purpose of the exit conference meeting is to provide the responsible officials of the audited program the opportunity to state their views concerning the auditors' findings, conclusions, and recommendations, as well as corrections planned. To ensure that the audit report is fair, complete, and objective, the City Auditor provides the auditee an audit report draft and invites auditee representatives to the Exit Conference in which the auditee representatives can state their views concerning the audit findings, conclusions, and recommendations. At this meeting, the auditee representatives will also explain the corrections they plan to do in response to the audit findings and recommendations. Based on the outcome of the exit conference, a final draft report, incorporating any changes discussed at the meeting will be issued to management. Entity management will have two weeks to respond to the final draft report. The City Auditor may grant a one week extension. <i>Note: the new response period will require changing Administrative Regulation 15.10 which allows Department Directors 60 days to respond to audit recommendations.</i></p> <p>In addition to their written response, entity management may submit a separate one to two page memorandum of program accomplishments to include in the final draft report. This memorandum helps ensure that the final report is fair, complete, and objective.</p>	<p>See exit conference w/p _____</p> <p>See preliminary draft transmittal letter to auditee w/p _____</p>
<p>56. If certain pertinent information is prohibited from public disclosure or is excluded from a report due to the confidential or sensitive nature of the information, auditors should disclose in the report that certain information has been omitted and the reason or other circumstances that makes the omission necessary. When certain information may be classified or otherwise prohibited from general disclosure by federal, state, or local laws or regulations, auditors may issue a separate, classified or limited use report to only authorized persons. Auditors should evaluate whether excluding certain information is appropriate considering the broad public interest in the program or activity under review. When audit organizations are subject to public records laws, auditors should determine whether those laws could impact the availability of certain reports and whether other means of communicating to officials would be more appropriate. (GAS 8.08, 8.38-8.42)</p>	<p>If certain pertinent information is prohibited from public disclosure or is excluded from a report due to the confidential or sensitive nature of the information, auditors should disclose in the report that certain information has been omitted and the reason or other circumstances that makes the omission necessary.</p> <p>Certain information may be classified or may be otherwise prohibited from general disclosure by federal, state, or local laws or regulations. In such circumstances, auditors may issue a separate, classified or limited use report containing such information and distribute the report only to persons authorize. Additional circumstances associated with public safety and security concerns could also justify the exclusion of certain information from a publicly available or widely distributed report.</p>	<p>Was information omitted from the audit report?</p> <p>_____ No</p> <p>_____ Yes, see report page _____</p>

REPORTING STANDARDS FOR PERFORMANCE AUDITS: <u>DISTRIBUTING REPORTS</u>		
<p>57. Distribution of reports completed under GAGAS depends on the relationship of the auditors to the audited organization and the nature of the information contained in the report. If the subject of the audit involves material that is classified for security purposes or contains confidential or sensitive information, auditors may limit the report distribution. (See paragraphs 8.38 through 8.42 for additional guidance on limited report distribution.) Auditors should document any limitation on report distribution.</p> <p>Audit organizations in government entities should distribute audit reports to those charged with governance, to the appropriate officials of the audited entity, and to the appropriate oversight bodies or organizations requiring or arranging for the audits. Internal audit organizations in government entities should communicate results to parties who can ensure that the results are given due consideration. Public accounting firms contracted to perform an audit under GAGAS should clarify report distribution responsibilities and reach agreement with the contracting organization about which officials will receive the report and the steps being taken to make the report available to the public. (GAS 8.43)</p>	<p>Auditing standards require that we distribute audit reports to those charged with governance, to the appropriate officials of the audited entity, and to the appropriate oversight bodies or organizations requiring or arranging for the audits. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations, and to others authorized to receive such reports.</p> <p>Audit protocols</p>	<p>See audit transmittal letter, page ____</p>

Section 4

Field Work Standards for Performance Audits—Reasonable Assurance, Significance, Audit Risk, and Planning,

This section documents the auditing standards for performance audits related to planning the audit; supervising staff; obtaining sufficient, appropriate evidence; and preparing audit documentation. The concepts of reasonable assurance, significance, and audit risk form a framework for applying these standards and are included throughout the discussion of performance audits. Section 5 documents how the Office of the City Auditor complies with the Field Work standards.

Reasonable Assurance

Performance audits that comply with GAGAS provide reasonable assurance that evidence is sufficient and appropriate to support the auditors' findings and conclusions. Thus, the sufficiency and appropriateness of evidence needed and tests of evidence will vary based on the audit objectives, findings, and conclusions. Objectives for performance audits range from narrow to broad and involve varying types and quality of evidence. In some engagements, sufficient, appropriate evidence is available, but in others, information may have limitations. Professional judgment assists auditors in determining the audit scope and methodology needed to address the audit objectives, while providing the appropriate level of assurance that the obtained evidence is sufficient and appropriate to address the audit objectives. Reasonable assurance is provided by a rigorous planning process and through implementation of the City Auditor's quality assurance program.

Significance in Performance Audits

The concept of significance assists auditors throughout a performance audit, including when deciding the type and extent of audit work to perform, when evaluating results of audit work, and when developing the report and related findings and conclusions. Significance is defined as the relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors. Such factors include the magnitude of the matter in relation to the subject matter of the audit, the nature and effect of the matter, the relevance of the matter, the needs and interests of an objective third party with knowledge of the relevant information, and the impact of the matter to the audited program or activity. Professional judgment assists auditors when evaluating the significance of matters within the context of the audit objectives. Significance is

documented through the audit scoping statement (Section 5) and the finding development process discussed in Section 6.

Audit Risk

Audit risk is the possibility that the auditors' findings, conclusions, recommendations, or assurance may be improper or incomplete, as a result of factors such as evidence that is not sufficient and/or appropriate, an inadequate audit process, or intentional omissions or misleading information due to misrepresentation or fraud. The assessment of audit risk involves both qualitative and quantitative considerations. Factors such as the time frames, complexity, or sensitivity of the work; size of the program in terms of dollar amounts and number of citizens served; adequacy of the audited entity's systems and processes to detect inconsistencies, significant errors, or fraud; and auditors' access to records, also impact audit risk. Audit risk includes the risk that auditors will not detect a mistake, inconsistency, significant error, or fraud in the evidence supporting the audit. Audit risk can be reduced by taking actions such as increasing the scope of work; adding experts, additional reviewers, and other resources to the audit team; changing the methodology to obtain additional evidence, higher quality evidence, or alternative forms of corroborating evidence; or aligning the findings and conclusions to reflect the evidence obtained.

Office of the City Auditor Policy on Audit Risk

In the Office of the City Auditor, audit risk will be assessed in the audit planning phase of the audit and quality control component of the audit process. Section 5 discusses the audit planning process.

Planning

Government Auditing Standards requires that auditors must adequately plan and document the planning of the work necessary to address the audit objectives. Specifically, the standards require that auditors must plan the audit to reduce audit risk to an appropriate level for the auditors to provide reasonable assurance that the evidence is appropriate to support the auditor's findings and conclusions. In planning the audit, auditors should assess significance and audit risk and apply these assessments in defining the audit objectives and the scope and methodology to address those objectives. Planning is a continuous process throughout the audit. Therefore, auditors may need to adjust the audit objectives, scope, and methodology as work is being completed.

Audit objectives: The objectives are what the audit is intended to accomplish. They identify the audit subject matter and performance aspects to be included, and may also include the potential findings and reporting elements that the auditors expect to develop. Audit objectives can be considered questions that auditors try to answer based on evidence obtained and assessed against criteria.

Audit scope: Scope is the boundary of the audit and is directly tied to the audit objectives. The scope defines the subject matter that the auditors will assess and report on, such as a particular program or aspect of a program, the necessary documents or records, the period of time reviewed, and the locations that will be included.

Audit methodology: The methodology describes the nature and extent of audit procedures for gathering and analyzing evidence to address the audit objectives. Audit procedures are the specific steps and tests auditors will carry out to address the audit objectives. Auditors should design the methodology to obtain sufficient, appropriate evidence to address the audit objectives, reduce audit risk to an acceptable level, and provide reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions. Methodology includes both the nature and extent of audit procedures used to address the audit objectives.

The standards also provide that auditors should assess audit risk and significance within the context of the audit objectives by gaining an understanding of the following:

- a. the nature and profile of the programs and the needs of potential users of the audit report;
- b. internal control as it relates to the specific objectives and scope of the audit;
- c. information systems controls for purposes of assessing audit risk and planning the audit within the context of the audit objectives;
- d. legal and regulatory requirements, contract provisions or grant agreements, potential fraud, or abuse that are significant within the context of the audit objectives; and
- e. the results of previous audits and attestation engagements that directly relate to the current audit objectives.

During planning, auditors also should

- a. identify the potential criteria needed to evaluate matters subject to audit;
- b. identify sources of audit evidence and determine the amount and type of evidence needed given audit risk and significance;
- c. evaluate whether to use the work of other auditors and experts to address some of the audit objectives;
- d. assign sufficient staff and specialists with adequate collective professional competence and identify other resources needed to perform the audit ;

- e. communicate about planning and performance of the audit to management officials, those charged with governance, and others as applicable; and
- f. prepare a written audit plan.

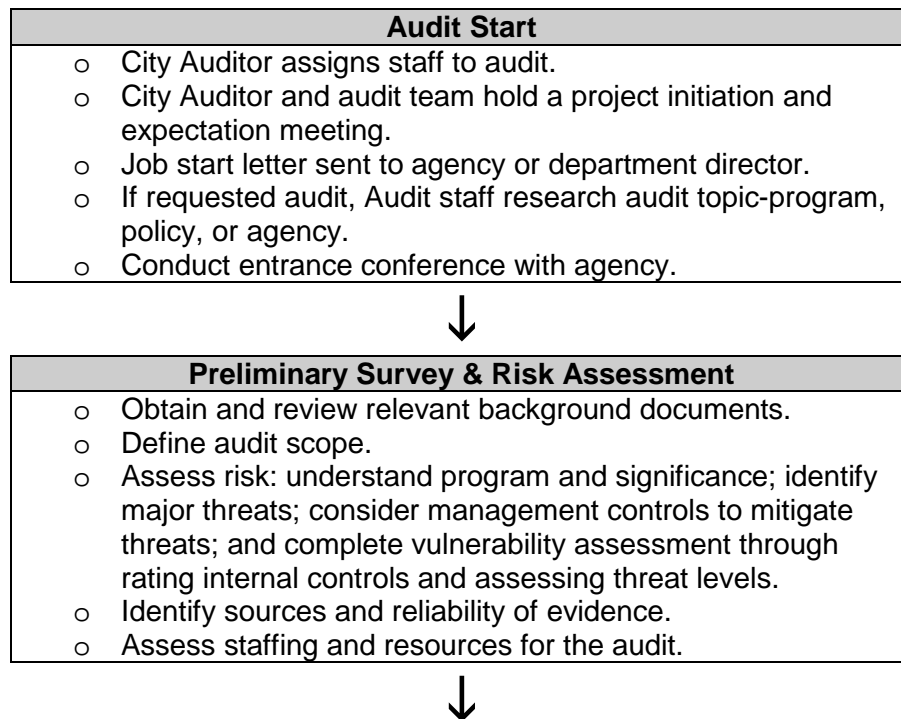
Section 5

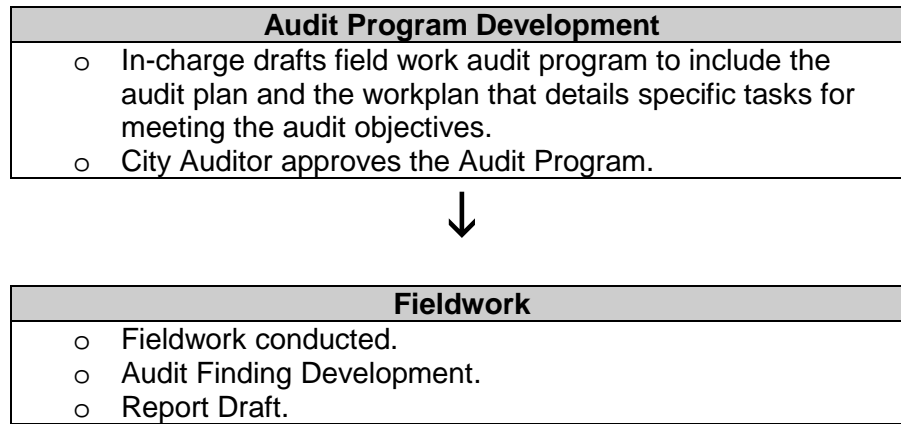
Audit Process: Audit Planning To Fieldwork

Section 5 documents how the Office of the City Auditor complies with standards related to reasonable assurance, significance, audit risk, and planning. This section provides guidance on the how to apply those standards in conducting audits based on the Citywide Risk Assessment model or requested audits. Specifically, this section will cover the initial planning phase of the audit (preliminary survey) that begins with start the audit, preliminary survey and risk assessment, and development of the audit program. The purpose of audit planning process is to generate information and ideas to better understand the audit subject, determine the audit objective, and to develop the audit field work program. Planning also involves estimating the time and resources necessary to complete the audit. The evidence gathered in background research and later fieldwork is documented in the working papers. Key outputs of audit planning include an audit background memorandum; audit scope statement; risk and vulnerability assessment document; and field work audit program.

AUDIT PLANNING PROCESS

The audit planning process can be divided into the following three phases: 1) starting the project, 2) preliminary survey (planning the audit and conducting risk assessment), and 3) developing the audit program. These steps are followed by fieldwork and reporting. Details of each of the steps are noted below.





PROJECT START

Project assignment

The City Auditor assigns staff to the audit based on input from the Audit Manager. Staff assignments will be based on auditor availability, experience, knowledge, and familiarity with the audit subject. For each audit, a Staff Assignment Form will be completed to document assignment approval, and staff competence, see page 82. After staff are assigned to an audit, an initial team meeting is held with the City Auditor to share information, discuss strategy (such as which officials to contact), and learn of the auditor's expectations. The meeting helps to identify project issues, their significance to potential users of the audit report, the contribution the office can make, and the availability of data and resources, and whether a consultant is required for the project. The in-charge summarizes the meeting in a memo, obtains approval from the supervisor, and forwards a copy to the City Auditor. All relevant documents and forms are found on the shared directory located at:

\\ad.sannet.gov\Dfs\AUD-Shared\Auditor\HOME_SYS\SEC-AUD\Audit Templates\All Audit Templates\Working Folder\Project Hierarchy Template

The audit program template is shown on page 78 and located at:

[Templates\Working Folder\Project Hierarchy Template\A Admin, Findings, Draft Report and Wrapup\APG_template.doc](#)

The audit program identifies all the required audit steps that must be performed and identifies the required documents that must be completed.

Job Start letter

The in-charge auditor will draft the audit job start letter for the City Auditor's signature to inform the department of the audit request, list required documentation, and request or confirm a meeting with the agency head. Examples of job start letters are shown on page 74 and 75.

Audit Request Research

For requested audits, the in-charge auditor must research the concerns behind the request. This may involve contacting the requesting party or office. Any meetings with the requesting party or office must involve the City Auditor.

Entrance conference

Once the job start letter has been sent to the auditee, the in-charge auditor will schedule an entrance conference to meet with the agency head and key staff. At the entrance conference, the City Auditor will: (1) introduce the members of the audit team, including the Audit Supervisor (2) explain the audit objective, scope, methodology, general process and timetable for the audit work, including the agency's deadlines to respond to preliminary findings and to the preliminary draft; (3) gain an understanding of the protocol to be followed in contacting staff and requesting information; (4) if applicable, request work space and network connectivity for the audit, and (5) solicit the views and concerns of the agency head on the project. Audit staff must document the meeting results, including a list of meeting attendees.

PRELIMINARY SURVEY—Audit Planning and Risk Assessment

Obtain and Review Relevant Background Information

Once an entrance conference has been held, the in-charge auditor obtains and reviews relevant information related to the audit request. This may include obtaining information regarding the auditee's mission, goals and objectives, organizational structure, policies and procedures, processes, resources, outputs, and outcomes. The auditor's goal is to understand the program to be audited and to finalize the audit objectives. To accomplish these tasks, auditors should undertake a preliminary audit program to do the following:

- Review any resolution, committee and Independent Budget Analyst reports, testimony, and other pertinent documents, such as committee hearing notes and reports relating to the audit subject;
- Review the City Charter, ordinances, contracts, grant agreements, program memoranda, annual reports, recent budget requests, testimony, internal reports, policy and procedure manuals, and organizational charts relating to the audit subject;
- Review relevant literature, including identifying criteria and related audits conducted by other local government auditors;
- Interview agency staff;
- Review agency files and key memorandums and reports related to the audit;
- Observe and document agency activities related to the audit;
- Review the results of previous audits and attestation engagements that directly relate to the current audit objectives.

Preliminary information about agency operations is gathered expediently and should be relevant to the audit topic. The key objective is to understand completely and competently the key issues of the program or entity being audited. After obtaining and reviewing the relevant background information has been, the auditor should write an **Audit Background and Scoping Statement Memorandum**¹ (see page 66) that summarizes key audit topic information and audit scope. The memorandum is essentially a work paper summary that is reviewed by the Audit Manager and City Auditor.

Defining Audit Scope

The purpose of the Scoping Statement is to document and define the audit scope by establishing key audit questions to answer, identifying potential sources of evidence, and developing an audit budget. This process is intended to keep the planning process to a minimum by focusing on what we are going to do, why we are going to do it, and how we are going to do it. If done properly, the scoping

¹ \\ad.sannet.gov\Dfs\AUD-Shared\Auditor\HOME_SYS\SEC-AUD\Audit Templates\All Audit Templates\Working Folder\Project Hierarchy Template\A Admin, Findings, Draft Report and Wrapup

work will help the team focus its risk assessment work around the tentative scope, methodology and objectives of the audit. A meeting will be held to review and approve the **Audit Background and Scoping Statement Memorandum**.

Office of the City Auditor

Audit Title

Audit Background and Scoping Statement Memorandum

Written by:

Date:

Approved by:

Date:

Background

History and Current Operations, including Key Functions, Processes or Factors:

Key Personnel and Related Needs:

Financial / Operational Impact:

Key Issues and Related Internal Controls:

Time and History Since Last Audit:

Overview of Audit Program

Audit Objectives:

Audit Scope (including what audit period should be covered (i.e. Fiscal Year 200X))²:

² Audit objectives and scope are prepared after the preliminary survey and review of background material. The audit objectives are what the audit is intended to accomplish. They identify the audit subject matter and performance aspects to be included, and may also include the potential findings and reporting elements that the auditors expect to develop. Audit objectives can be thought of as questions about the program that the auditors seek to answer based on evidence obtained and assessed against criteria. Audit scope is the boundary of the audit and is directly tied to the audit objectives. The scope defines the subject matter that the auditors will assess and report on, such as a particular program or aspect of a program, the necessary documents or records, the period of time reviewed, and the locations that will be included.

Audit Criterion (those areas where “what should be” criteria will have to be developed):

Audit Procedures, considering major work tasks that require attention during the audit:

General / Administrative

Staffing:

Time Estimates:

The following are estimates only and not meant to be restrictive in achieving the audit objectives.

Total hours: hours

Estimated Closing Conference date:

(**Note:** Based on availability of staff, number of scheduled or special audits, responses to information requests and expansion of scope)

Reporting Requirements and Needs of Potential Users of the Report:

Risk Assessment

Once the scoping statement is completed, auditors need to identify and assess the risks associated with the agency, program, or policy under audit. The purpose of risk assessment is to identify and rate the threats facing the program or agency under audit, identify and assess the controls or procedures in place to prevent or mitigate such threats, and perform a vulnerability assessment of the audit risks and controls.

Purpose

- To identify the threats facing the program or contract under audit; identify the controls or procedures the City has in place to prevent, eliminate or minimize the threats.
- To identify the threats facing the program or contract under audit; identify the controls or procedures the City has in place to prevent, eliminate or minimize the threats. To determine the probability that noncompliance and abuse, which is individually or in the aggregate material, could occur and not be prevented or detected in a timely manner by the internal controls in place; assess the internal control structure in accordance with SAS 55.

To develop audit procedures to see if the controls or procedures the City has in place to prevent, eliminate, or minimize identified threats are working; determine if additional audit procedures are necessary to document threats actually occurring.

The rationale for conducting a risk assessment is that auditors can limit testing and focus on those areas most vulnerable to noncompliance and abuse. This produces a more cost-effective and timely audit.

In conducting a risk assessment, the auditor:

- Identifies the threats associated with the area or activity under review;
- Determines the inherent risk associated with the identified threats; and
- Assesses whether the existing internal controls will prevent, detect, or correct instances when threats actually occur.

The extent of audit testing is directly related to an assessment of the activity's degree of vulnerability. The higher the vulnerability, the more extensive the audit testing needs to be and vice versa. Thus, even though an activity may have a high degree of inherent risk, a strong system of internal controls can reduce the entity's exposure to a low or moderate level. Accordingly, the need to conduct detailed audit tests could be reduced to an appropriate level

The risk assessment work should be documented in the audit working papers. This assessment should serve as the foundation for the developing the detailed audit steps and tests to be performed in the Audit Program. The risk assessment should be documented in a completed risk matrix and relevant to the audit objectives. Auditors must perform the following steps.

Risk Assessment Audit Steps

1. Based on information gathered during the Preliminary Survey, prepare a tentative list of threats for the major audit objectives. If computer processed data is an important or integral part of the audit and the reliability of the data is crucial to accomplishing audit objectives, the auditor should include threats to computer processed data in this list. Auditors must consider the following factors.
 - Assess the risk that abuse or illegal acts could occur and materially impact the auditee's compliance with laws, rules, or regulations or have a material effect on the auditee's operations. Consider whether the auditee has controls that are effective in preventing or detecting illegal acts. See Section 10 for specific guidance.
 - If computer systems or computer-processed data are included as threats or as controls above, consult with the project supervisor to determine the need for EDP audit assistance.
 - Identify material and significant findings and recommendations from previous reports issued by the office on the agency or program that may require follow-up in the current project. An auditee's failure to rectify outstanding issues and implement previous recommendations are considered threats.
2. Meet with audit management to review the list of potential threats and include any additional threats to the list. Auditors may send this information to the auditee prior to the meeting. At the same meeting, auditors must document management's internal controls (actual or potential controls) to mitigate the identified threats.
3. Create a risk matrix with the identified threats and corresponding identified controls. Use the rating guides to assess each threat's inherent risk, rate each internal control, and assess the vulnerability of each internal control given the threat risk and internal control rating. These guides are shown on the following pages and are used to determine the extent of testing needed to assess the identified internal controls. An example of an excerpt of a completed risk matrix and

vulnerability assessment is shown after the rating guides. The Audit Manager reviews the final risk matrix and the City Auditor approves the document. A meeting may be held to discuss the matrix and assessment.

Threat Inherent Risk and Internal Control Rating Guide

The threat's inherent risk is	if	The internal control is	If
HIGH	<ul style="list-style-type: none"> Noncompliance or abuse may result in significant losses to the City of marketable assets (e.g., cash, securities, equipment, tools, supplies). Noncompliance or abuse will likely expose the City to adverse criticism in the eyes of its citizens. Incentives of noncompliance or abuse outweigh the potential penalties. 	WEAK	<ul style="list-style-type: none"> Management and/or staff demonstrate an uncooperative or uncaring attitude with regard to compliance, recordkeeping, or external review. Prior audits or the preliminary survey has disclosed significant problems. The Risk Matrix reveals that adequate and/or sufficient internal control techniques are not in place. Documentation of procedures is lacking or of little use.
MODERATE	<ul style="list-style-type: none"> Noncompliance or abuse may result in moderate losses to the City of marketable assets (e.g., cash, securities, equipment, tools, supplies). Noncompliance or abuse will result in inefficient operations or substandard service to the citizens. Incentives of noncompliance or abuse are approximately equal to the potential penalties. 	ADEQUATE	<ul style="list-style-type: none"> Management and staff demonstrate a cooperative attitude with regard to compliance, recordkeeping, and external review. Prior audits or the preliminary survey has disclosed some problems but management has implemented remedial action and has satisfactorily responded to audit recommendations. The Risk Matrix reveals that adequate and/or sufficient internal control techniques are in place. Although deficient or outdated, documentation of procedures is still useful or can easily be updated.
LOW	<ul style="list-style-type: none"> Noncompliance or abuse may result in low losses to the City of marketable assets (e.g., cash, securities, equipment, tools, supplies). Noncompliance or abuse will result in a disregard of an administrative procedure or authoritative standard. The potential penalties outweigh the incentives of noncompliance or abuse 	STRONG	<ul style="list-style-type: none"> Management and staff demonstrate a constructive attitude, including an eagerness to anticipate and forestall problems. Prior audits and the preliminary survey have not disclosed any problems. The Risk Matrix reveals that numerous and effective internal control techniques are in place. Procedures are well documented.

Vulnerability Assessment and Testing Extent

Inherent Risk	Internal Controls	Vulnerability and Testing Extent
High	Weak Adequate Strong	High Moderate to High Low to moderate
Moderate	Weak Adequate Strong	Moderate to High Moderate Low
Low	Weak Adequate Strong	Low to moderate Low Very low

Example of Risk Matrix and Vulnerability Assessment

	Threat/Control	Threat's Inherent Risk	Internal Control Rating	Vulnerability Assessment
T-1	Procurement card holders make purchases that are not permitted by law, regulation, or policy	Moderate		
C-1	City maintains and enforces policy on monitoring credit card usage		Weak	Moderate to high
C-2	Bank sends monthly summary statement to Approving Official listing all cardholders and transactions.		Adequate	Moderate
C-3	Approving Officials are required to review all statements and approve all purchases within 10 days.		Weak	Moderate to high
C-4	Accounting staff review approved statements for approving official signature, travel-related expenses, technology purchases, and unusual purchases.		Adequate	Moderate

AUDIT PROGRAM DEVELOPMENT

Field Work Audit Program

Based on the results of the scope review, preliminary survey, and risk assessment, the auditor develops an audit program that consists of the audit objectives, scope, methodology, and related concerns. The audit program includes detailed audit steps, tasks, and procedures to test if the identified controls or procedures the audited entity has in place to prevent, eliminate, or minimize identified threats are working as intended. The supervisor reviews the audit program and the City Auditor approves the document.

Auditors should follow the Audit Procedure Guidelines listed on page 76 in developing the specific audit steps listed in the audit program. Specifically, based on the risk and vulnerability assessment, the in-charge auditor will write the audit program to determine if the controls or procedures the audited entity has in place to prevent, eliminate, or minimize identified threats are working as intended. As the audit progress, the audit staff should document the key decisions about the audit objectives, scope, and methodology.

The Field Work Audit Program guides audit staff through the steps necessary to complete audit fieldwork. In fieldwork, auditors obtain and analyze program data and information to determine if the identified controls are working as intended. This is accomplished by completing the audit steps identified in the Audit Program. Audit steps may include interviewing officials, reviewing documents (e.g. internal memoranda, correspondence, reports, minutes, contracts), and gathering statistical data through database searches, analysis of secondary data sources, and surveys. The audit field work objective is to develop audit findings.

Variations of audit programs

In certain instances, the need may arise to make modifications to the audit program to address expanded audit scope or to address new audit issues. The City Auditor will approve any significant departures from the Audit Program, with an explanation for the change documented in a memo prepared by the in-charge auditors. Minor changes such as extensions of internal deadlines do not require formal approval by the City Auditor.

In other circumstances, the City Auditor may authorize variations of audit programs to facilitate project efficiency and effectiveness. For example, some projects may need only a preliminary audit plan, but no field work audit program, such as close-out audits and the annual inventory audits, both of which have set audit programs. In these instances, the audit plan would contain the usual detailed description of audit tasks, but would be prefaced with a short introductory section containing key elements of an audit plan in abbreviated form. This approach might be useful in a highly structured project that differs so little from previous similar projects that a comprehensive audit plan would be superfluous. In using variations of audit programs, care must be taken to document the reasons for the different approach, the necessary approvals, and to ensure that the approach meets GAGAS requirements.

Auditors should extend audit procedures when there are indications that fraud or abuse significant to the audit objectives may have occurred. Auditors should document in the working papers and audit program when audit procedures are extended. If the potential fraud is not significant to the audit objectives, auditors may conduct additional work as a separate engagement or refer the matter to other parties with oversight responsibility. In fraud-related situations, our policy will be not to interfere with legal proceedings or investigations.

Developing Preliminary Findings

Audit findings must contain condition, criteria, cause, effect, and recommendations. However, the elements needed for a finding depend entirely on the objectives of the audit. A finding or set of findings is complete to the extent that the audit objectives are satisfied and the report clearly relates those objectives to the finding's elements.

Condition	What is? The situation that exists and has been documented during the audit.
Criteria	What should be! The standards used to determine whether a program meets or exceeds expectations. Criteria provide a context for understanding the results of the audit. The audit plan, where possible, should state the criteria to be used. Criteria should be reasonable, attainable, and relevant to the matters being audited.
Effect	The difference between the condition and criteria. What is the impact (actual or potential) in services, dollars, or people resulting from the stated condition. The harm that could occur from the condition.
Cause	Who or how the problem or non-compliance with the criteria occurred.
Recommendations	Specific actions that will rectify the cause of the condition.

Based on assessment of the information gained, auditors should determine the type and amount of evidence needed to obtain sufficient, appropriate evidence to address the audit objectives. Throughout the course of the audit, the in-charge auditor, supervisor, and City Auditor should discuss proposed findings. When all of the elements of a finding have been met and audit work completed, the staff should present to the Supervisor a report outline including the above elements. The City Auditor will review and comment on the outline, make suggestions and then approve the development of a report draft. The auditor should follow the guidance provided in the attachment to Section 7 for writing the report. When auditors conclude that sufficient, appropriate evidence is not available, auditors should evaluate whether internal control or other program weaknesses are the cause.

Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions. Sufficiency refers to the amount of evidence gathered and presented. Appropriateness refers to the quality of evidence including its relevance to the audit objectives, reliability and validity. Auditors should evaluate whether the evidence taken as a whole is sufficient and appropriate for addressing the audit objectives and supporting findings and conclusions. Auditors should document their assessment. The specific steps to assess evidence will depend on the nature of the evidence, how it is used in the audit and the audit objectives. When auditors identify limitations or uncertainties in evidence that is significant to the audit findings and conclusions, auditors should apply additional procedures to strengthen the evidence, redefine the audit objectives or scope to eliminate the need to use the evidence, or revise the findings and conclusions such that supporting evidence is sufficient and appropriate.

Audit Manual Section 6 covers the Office of the City Auditor's policy regarding audit evidence. Section 6 addresses elements critical to a successful fieldwork process including types and tests of evidence, conducting interviews, audit sampling, preparation of audit working papers, securing and disclosing working papers, testing for compliance, and developing preliminary findings.

_____ Department
City of San Diego
202 C Street
San Diego, CA 92101

Dear _____:

In accordance with the Office of the City Auditor's approved fiscal year 2009 Audit Workplan, we are initiating an audit of the _____ of the _____ Department.

In order to commence the audit, we would like to schedule an entrance meeting to discuss the audit objectives, audit process, time frames, data needs, and to introduce members of the audit team. A member of my staff will contact you to arrange this meeting with members of your department.

Accordingly, please provide us with the following preliminary information about _____:

- An organization chart and listing of key program personnel;
- Background information and a history of the program;
- A copy of the program's written procedures;
- Management reports, financial reports, and budget information on the program for the past three years;
- Any additional information you believe may be relevant to us in learning about your program.

We plan to conduct this audit in accordance with generally accepted government auditing standards. Prior to issuing any audit report resulting from this audit, you will have the opportunity to review the report and provide written comments for inclusion in the final audit report. You will also have the opportunity to include a memorandum of program accomplishments in the final report.

If you have questions or need additional information, please do not hesitate to contact either me on 533-5214 or ____-____. Your cooperation is greatly appreciated.

Sincerely,

Eduardo Luna
City Auditor

cc: Jay Goldstone

Date

_____ Department
City of San Diego
202 C Street
San Diego, CA 92101

Dear _____:

In accordance with the Office of the City Auditor's approved fiscal year 2009 Audit Work Plan, we are initiating an audit of the _____ of the _____ Department.

In order to commence the audit, we have scheduled an entrance meeting to discuss the audit objectives, audit process, time frames, data needs, and to introduce members of the audit team. The entrance meeting will be held on Monday, January 14, 2008, at the Office of the City Auditor located at 600 B Street, Suite 1440, San Diego, CA.

Accordingly, please provide us with the following preliminary information about _____:

- An organization chart and listing of key program personnel;
- Background information and a history of the program;
- A copy of the program's written procedures;
- Management reports, financial reports, and budget information on the program for the past three years;
- Any additional information you believe may be relevant to us in learning about your program.

We plan to conduct this audit in accordance with generally accepted government auditing standards. Prior to issuing any audit report resulting from this audit, you will have the opportunity to review the report and provide written comments for inclusion in the final audit report. You will also have the opportunity to include a memorandum of program accomplishments in the final report.

If you have questions or need additional information, please do not hesitate to contact either me on 533-5214 or ____-____. Your cooperation is greatly appreciated.

Sincerely,

Eduardo Luna
City Auditor

cc: Jay Goldstone

**CITY OF SAN DIEGO
OFFICE OF THE CITY AUDITOR
AUDIT PROCEDURES GUIDELINES**

There are many types of audit procedures which can be used to test transactions or processes. The audit objective determines the type of procedure to be used. The auditor must judge the evidence obtained through the audit procedures to make conclusions for each audit objective. The evaluation process requires professional judgment in determining the adequacy, efficiency, economy and effectiveness of what has been audited. Care must be taken in selecting the correct procedure to achieve the audit objective. The audit risks include: selecting an improper audit procedure, executing the procedure incorrectly, and incorrect evaluations.

The following general types of audit procedures are discussed below: **Verification, Observation, Inquiry, and Analysis.**

A. Verification

Verification is the confirmation of things such as: Assets; Records; Statements; Documents; Compliance with laws and regulations; effectiveness of internal controls; transactions; and processes. The purpose of verification is to establish the accuracy, reliability or validity of something. Following is a discussion of types of verification techniques:

1. **Count:** An auditor will use this technique to verify the accounting records of a physical asset by physically counting the assets.
2. **Compare:** An auditor will identify similar and/or different characteristics of information from two or more sources. Types of comparison include: (a) Comparison with prescribed standards; (b) Comparison of current operations with past or similar operations; (c) Comparison with written policies and procedures; (d) Comparison with laws or regulations; and (e) Comparison with other reasonable criteria.

Specific examples are:

- To compare a law requiring that a percentage of taxes will be used for a particular program with the accounting records showing the amount of taxes and how much was spent on the program.
 - To compare the documentation of a transaction with the procedure for the transaction.
3. **Examine:** To look something over carefully, such as a document, especially for the purpose of detecting flaws or irregularities. For example, an auditor may examine a document to verify that it has been executed by authorized persons.
 4. **Inspect:** To look something over carefully, such as a physical asset, especially for the purpose of detecting flaws or irregularities. For example, an auditor may inspect inventory to verify quality.
 5. **Foot:** To recompute the mathematical result of addition or subtraction of columns or rows of numbers in documents or records.

6. **Recompute:** To check mathematical computations performed by others.
7. **Reconcile:** The process of matching two independent sets of records and to show mathematically, with supporting documentation, the difference between the two records. For example, the beginning and ending balances in an account could be reconciled to document the transactions that account for the changes between the beginning and the end.
8. **Confirm:** To obtain information from an independent source (third party) for the purpose of verifying information.
9. **Vouch:** To verify recorded transactions or amounts by examining supporting documents. In vouching, the direction of testing is from the recorded item to supporting documentation. The purpose for vouching is to verify that recorded transactions represent actual transactions.
10. **Trace:** Tracing procedures begin with the original documents and are followed through the processing cycles into summary accounting records. In tracing, the direction of testing is from supporting documentation to the recorded item. The purpose of tracing is to verify that all actual transactions have been recorded.

B. Observation

Observation is auditors seeing with a purpose, making mental notes and using judgment to measure what they see against standards in their minds. Experienced auditors may be better able to observe deviations from the norm. Observed deviations usually require confirmation through analysis or corroboration.

Types of deficient conditions which can be observed include:

1. Idle personnel, equipment, or facilities;
2. Security violations;
3. Dangerous conditions or safety violations; and
4. Backlogs.

C. Inquiry

Auditors perform interviews with the auditee and related parties throughout the audit. Good oral communication skills on the part of the auditor assist in getting accurate and meaningful information from the interviewee. Auditors should use open-ended questions when possible. Depending on the type of information received in an interview, it may need to be confirmed through documentation.

D. Analysis

Analysis is the separation of an entity for the purpose of studying the individual parts of data. The elements of the entity can be isolated, identified, quantified, and measured. The quantification may require the auditor to perform detailed calculations and computations. Furthermore, the auditor can document ratios and trends, make comparisons and isolate unusual transactions or conditions.

Office of the City Auditor

<i>AUDIT NAME:</i>	<i>JOB ORDER #:</i>
<i>Department:</i>	<i>Budgeted Hrs:</i>
<i>Audit Period:</i>	<i>Date Started:</i>
<i>Principal Auditor:</i>	<i>Audit Manager:</i>

Audit Program Guide

Preliminary Audit Objectives (should relate to COSO controls objectives and components):

1. Add Text
2. Add Text
3. Add Text

Audit Risks:

1. List the risks that the audit may have;
2. There could be more than 1
3. Add text

Audit Procedures:

	Initials	W/P Ref
<i>A. Administrative / Findings / Report / Wrap-Up</i>		
1. Conduct a Kickoff Meeting and document in Audit Kickoff Memo		
2. Complete Staff Assignment Form *		
3. Complete / send Job Start Letter (also available with no date) *		
4. Prepare the Audit Communications Document for Entrance *		
5. Schedule an Entrance Meeting & prepare the agenda & sign in sheet *		
<i>Preliminary Survey & Risk Assessment performed (see section B below)</i>		
6. Prepare the Audit Client Participation List (after preliminary survey) *		
7. Prepare the Preliminary Audit Budget *		
8. Complete the Audit Standards Plan *		
9. Prepare the Audit Program Guide *		
10. Prepare the Audit Summary of Findings *		
11. Complete the Audit Workpaper Review Checklist *		
Report Writing & Issuance		
12. Prepare the draft report *		
13. Supervisory review of draft report (Review Notes)		

14. City Auditor review of draft report (Review Notes)		
15. Independent Report Review Process (Review Notes)		
16. Address all audit review comments		
17. Report draft is edited		
18. Draft audit report issued to agency management		
19. Final audit report revisions		
20. Schedule an Exit Meeting & prepare the agenda & sign in sheet *		
21. Final draft report issued to agency management		
22. Agency management submits written response to audit report.		
23. Scan signed audit report to Adobe “filename.pdf” on shared drive.		
24. Final audit report is issued with written agency response		
25. Update the Audit Standards Plan *		
26. Update the budget for actual hours and prepare variance analysis		
27. Upload signed final report to external City Auditor web site, unless report is confidential.		N/A

B. Background / Preliminary Survey	Initials	W/P Ref
Preliminary Survey (PS)		
1. Review the City Charter, ordinances, contracts, grant agreements, program memoranda, annual reports, recent budget requests, testimony, internal reports, policy and procedure manuals, and organizational charts relating to the audit subject.		
2. Review relevant resolutions, committee reports, testimony, and other pertinent documents relating to the audit subject.		
3. Review relevant literature, including identifying criteria and related audits conducted by other local government auditors.		
4. Review agency files and key memorandums and reports related to the audit.		
5. Observe and document agency activities related to the audit.		
6. Review the results of previous audits and attestation engagements that directly relate to the current audit objectives.		
7. Interview key program managers and staff related to the audit subject. (Reference General Survey Inquiry Tool)		
8. Assess whether work requires coordination with other auditors for work completed or ongoing that can be used to help carry out the project;		
9. Identify whether law enforcement or other agencies are investigating the auditee. If yes, note whether such investigations may limit your scope or have other limitations that may impact the audit;		
10. Develop the Audit Background and Scoping Statement Memorandum . (Should be stored in Admin Folder) *		
Risk Assessment (RA)		
1. Prepare a tentative list of threats for the major audit objectives. If computer processed data is an important or integral part of the audit		

<p>and the reliability of the data is crucial to accomplishing audit objectives, the auditor should include threats to computer processed data in this list. Auditors must consider the following factors.</p> <ul style="list-style-type: none"> • Assess the risk that abuse or illegal acts could occur and materially impact the auditee's compliance with laws, rules, or regulations or have a material effect on the auditee's operations. Consider whether the auditee has controls that are effective in preventing or detecting illegal acts. • If computer systems or computer-processed data are included as threats or as controls above, consult with the project supervisor to determine the need for EDP audit assistance. • Identify material and significant findings and recommendations from previous reports issued by the office on the agency or program that may require follow-up in the current project. An auditee's failure to rectify outstanding issues and implement previous recommendations are considered threats. 		
2. Meet with audit management to review the list of potential threats and include any additional threats to the list. Auditors may send this information to the auditee prior to the meeting. At the same meeting, auditors must document management's internal controls (actual or potential controls) to mitigate the identified threats.		
3. Create a risk matrix with the identified threats and corresponding identified controls. Use the rating guides to assess each threat's inherent risk, rate each internal control, and assess the vulnerability of each internal control given the threat risk and internal control rating.		
4. Create an audit program (below) to determine if the controls or procedures the audited entity has in place to prevent, eliminate, or minimize identified threats are working as intended.		
Internal Control Documentation (as applicable)		
1. Prepare a flowchart of process(es)		
2. Prepare a narrative of process(es) and internal controls in place and functioning		
3. Complete a walkthrough of process(es) to confirm understanding of process(es) [<i>complete a walkthrough only if fieldwork does not include transaction testing – see section C of APG</i>]		
4. Summarize relevant and most updated policies, procedures and department guidelines (see template)*		

C. – Y. Audit Fieldwork	Initials	W/P Ref
Sample Selection		
1.		
2.		
3.		
Fieldwork		
1.		
2.		
3.		

Z. Additional Data Analyses	Initials	W/P Ref
Data Collection/Sample Selection		
1.		
2.		
3.		
ACL / Excel Analysis		
1.		
2.		
3.		
Additional Analyses		
1.		
2.		
3.		

Staff Assignment Form

Assignment Title:

Job Number:

Audit Type: Performance ____ Financial ____ Other ____

Workplan: FY ____

Source: Citywide Risk Assessment

Required

Requested by _____

(Attach documentation of Audit Committee approval)

Will this assignment result in our auditing our own work? Yes ____ No ____

Has the Office of the City Auditor (1) performed any management functions or made any management decisions relative to the audit subject Yes ____ No ____ (2) provided non-audit services that are significant or material to the subject matter of the audit? Yes ____ No ____
If so, please document below:

Audit Supervisor: Kyle Elser

Audit Staff:

**Estimated
Completion Date:**

Estimated Hours:

Special instructions:

I have reviewed the assigned staffs' résumés, and current training records. The assigned staff collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed. Further, I have reviewed each assigned staff person's signed Annual Independence Statement and found that no known impairments exist.

Approved: _____

**Eduardo Luna
City Auditor**

Date: _____

Section 6

Elements Critical To Successful Fieldwork

Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions. Auditors must evaluate whether the evidence taken as a whole is sufficient and appropriate for addressing the audit objectives and supporting findings and conclusions. Section 6 will cover elements critical to a successful fieldwork process including types and tests of evidence, conducting interviews, audit sampling, preparation of audit working papers, securing and disclosing working papers, testing for compliance, and developing preliminary findings.

Types and Tests of Evidence

Audit evidence may be physical, documentary, testimonial, or analytical.

- **Physical evidence** is obtained through direct inspection or observation of people, property, or events. It can be documented by photographs, charts, maps, physical samples, memoranda summarizing the matters inspected or observed, and other sources. The value of physical evidence is often limited by the number of observations made, the biases of the observer, and the impact of observation on the subjects.
- **Documentary evidence** is used heavily in performance audits and other projects. It consists of “created information” such as emails, letters, contracts, accounting records, invoices, correspondence, memoranda, and management information on performance. It is usually more reliable, more objective, easier to assemble, and easier to document than other kinds of evidence.
- **Testimonial evidence** is obtained through responses to inquiries, surveys, or interviews. Testimonial evidence is usually the weakest form of evidence and generally not used to support key audit findings. Testimonial representations may be included in report, but must be attributed. Whenever possible, important information from interviews is corroborated with additional evidence.
- **Analytical evidence** is compiled by the staff from other types of evidence. It includes computations, comparisons, rational arguments, interpretations, and the separation of information into components. The quality of analytical evidence depends on the accuracy and reliability of the data used, the level of detail, and the logic applied in the analysis.

Tests of Evidence

Evidence used for projects must meet tests of sufficiency, relevance, and competence.

1. **Sufficiency** means that there is enough evidence to support the findings, conclusions, and recommendations of a report and persuade a reasonable person of their validity. When appropriate, statistical methods may be used to establish sufficiency. The office working paper standards require working papers to be clear and understandable without supplementary oral explanations.
2. **Competence** means evidence is valid, reliable, and consistent with fact. In assessing the competency of evidence, auditors should consider whether the evidence is accurate, authoritative, timely, and authentic. For assessing the competence of evidence, some evidence is more competent than others:
 - a. Evidence obtained from a credible third party is more competent than that secured from the auditee.
 - b. Evidence developed under an effective system of management controls is more competent than that obtained where such controls are weak or nonexistent.
 - c. Evidence obtained through the auditors' direct physical examination, observation, computation, and inspection is more competent than that obtained indirectly.
 - d. Evidence from original documents is more competent evidence than from copies.
 - e. Testimonial evidence obtained under conditions where persons may speak freely is more competent than testimonial evidence obtained under compromising conditions.
 - f. Testimonial evidence obtained from an individual who is not biased or has complete knowledge about the area is more competent than testimonial evidence obtained from an individual who is biased or has only partial knowledge about the area.
3. **Relevance** means that the information has a logical and sensible relationship to the issue being addressed. Information that is not relevant is not included in working papers as evidence. Audit staff should ensure that working papers and related information accumulated while developing a specific finding have direct bearing on the finding and related recommendations. However, staff should avoid indiscriminately accumulating papers and documents which may be related to the subject but have no potential bearing on the finding.

Written Representation Concerning Testimonial Evidence

As indicated previously, testimonial evidence is usually the weakest form of evidence and generally not used to support key audit findings. In certain situations, audit staff need to obtain written confirmation or written representation concerning key information provided through interviews—officials providing key explanations as to why certain actions were or were not performed. Written representations ordinarily confirm oral representations given to auditors, indicate and document the continuing appropriateness of such representations, and reduce the possibility of misunderstanding concerning the matters that are the subject of the representations. To obtain written representation or confirmations, auditors should transmit a written interview summary via email to the appropriate official. The email should indicate that the official needs to review the attached document summarizing your meeting for accuracy and completeness. Indicate that the official has five days to review the summary and provide comments. If no comments are provided by the due date, indicate the official is acknowledging and agreeing to the accuracy and completeness of the written summary. Use the email time/date feature to document the email. Retain all related documents as work papers.

Source of data determines the approach for determining sufficiency, competence, and relevance

- a. Data gathered by audit staff include their own observations and measurements. among the methods for gathering this type of data are questionnaires, structured interviews, direct observations, and computations.
- b. Data gathered by the auditee can be used by audit staff as part of their evidence. Audit staff may determine the validity and reliability of the data by direct tests of the data. The amount of such tests of the data can be reduced if a test of the effectiveness of the entity's controls over the validity and reliability of the data support the conclusion that the controls are effective. The nature and extent of testing of the data will depend on the significance of the data to support audit findings. Audit staff should document tests done regarding the reliability of the data obtained from the auditee.
- c. When the tests of data disclose errors in the data, or when audit staff are unable to obtain sufficient, competent, and relevant evidence about the validity and reliability of the data, audit staff may find it necessary to (1) seek evidence from other sources, (2) redefine the audit's objectives to eliminate the need to use the data, or (3) use the data, but clearly indicate the data's limitations and refrain from making unwarranted conclusions or recommendations.
- d. Evidence may also include data gathered by third parties. In some cases, these data may have been audited by others and in other cases, it may not be practical to obtain evidence of the data's validity and reliability. The use of un-audited third-party data in an audit report will depend on the data's significance to the audit findings.

Conducting Interviews

Before conducting an interview, the in-charge auditor and the staff auditor should prepare and review the interview questions. The following guidelines apply to the development of interview questions:

- Keep questions short, address only one topic at a time, be precise, and use language that is easily understood.
- Frame questions in non-judgmental terms. Similarly, avoid leading questions.
- Avoid asking questions for which the answer is obvious or can readily be found in available reference sources.
- Frame questions to require a narrative response, rather than a “yes” or “no” answer.
- Be mindful of the length of the questionnaire.
- Organize the questions in a logical sequence.
- Save controversial questions for the end.

Interview questions may be reviewed with the audit supervisor to ensure that these guidelines and the audit objectives are addressed. This should especially be done for such key interviews as the entrance conference. An appointment should be made to conduct the interview. By calling for an appointment, the staff auditor can introduce him or her self, clarify who will be participating in the interview, explain why the interview is requested, and state what will be covered. If possible, the interview should be held in the respondent’s office, meeting room, or in a neutral site. It is also helpful to provide the interviewee with a copy of the questions to assist in gathering materials necessary for the response. However, agency requests for copies of interview questions will not be granted, since interview questions with responses noted are confidential working papers during the conduct of the audit. The protocol for arranging interviews should be decided in the entrance conference or shortly thereafter.

Conducting the interview

Sensitive interviews or interviews on detailed and complex subjects are best conducted in pairs. The in-charge auditor is primarily responsible for developing and asking the questions and writing up the interview notes afterward. The role of the other staff auditor is to listen carefully, help to record the responses, and following up on inconsistencies, ambiguities, and promising new avenues of exploration as they arise. The interjections of the other person provide welcome relief to the interview leader, who can use the break to refocus on the progress of the interview and upcoming question.

The audit team members should arrive for the interview on time. The interviewee should be thanked for taking time for the appointment. The in-charge auditor begins by introducing the members of the audit team, explaining the objectives of the audit, explaining the purpose of the audit interview, and assuring the interviewee that the

results of the interview will be kept confidential. The elements of the findings planned for the audit may also be explained.

If the interviewee asks that particular remarks be kept off the record, the interviewer(s) should stop taking notes; however, keep in mind that the information then cannot be used as evidence. When asking the prepared questions, demonstrate your interest in the interviewee's statements by listening actively. It is helpful to occasionally restate or summarize your understanding of the interviewee's remarks to confirm your understanding. The secondary interviewer should ensure that the questions are fully answered. This may require several restatements of the question or of the given response. Keep note taking brief; you can elaborate on the notes after the meeting.

At the close of the interview, be sure to thank the interviewee and ask if follow up questions can be made by phone. Returning back to the office, it is useful for the in-charge auditor and team members to evaluate how well the interview went, whether all of the questions were asked and adequately responded to, and whether any new leads or issues were raised. The in-charge auditor should ensure that new leads or issues are documented in the interview notes. Interview notes should be drafted as soon as possible after the meeting while one's memory is still fresh. The draft interview notes can be reviewed for accuracy and completeness with the other member of the interview team. Since statements in an interview usually require corroboration, the in-charge auditor should also conduct appropriate research to obtain such information as soon as possible.

Documenting Interviews

Auditors prepare a record of the interview (including phone) as soon after the interview as possible. The handwritten interview notes may be attached to the record if the supervisor requests and become part of the permanent working papers. Each interview record contains the following information:

- Date and place of interview.
- Time interview began and ended.
- Name, position, organization, and telephone number of interviewee, and others present at the interview.
- Name(s) of interviewer(s).
- Purpose of interview.
- In-charge's and team member's judgments, comments, and working paper cross-references where appropriate.
- When warranted, a note that the interview was orally confirmed

Audit Sampling

In general, there are two types of samples: probability samples, and nonprobability samples.

A *probability sample* is selected in such a way that each item or person in the population has a known chance of being included in the sample. Thus, every item or person has a

chance of being selected. There are various types of probability samples. Each involves some method of selecting an item or person on a random basis. These methods are sometimes collectively referred to as *random samples*. For ease of reference and consistency, the remaining section of this manual will use the term “random sample” for any type of probability sample.

In a *nonprobability sample* not all items or persons have an equal chance of being selected. The person or item in the sample is selected based on the judgment or convenience of the person conducting the audit. Thus, these types of samples are referred to as *judgment samples* or *convenience samples*. The results of these types of samples may be biased, meaning results may not be representative of the population. All types of nonprobability samples will be called judgment samples in the remaining section of this manual.

To determine whether to use a random or a judgment sample, the in-charge needs to know how information from the sample will be used. If the audit team member needs to make a statement about the entire population of interest, then a random sample is definitely needed. If no statement or description of the population is needed, then a random or a judgment sample can be used. The in-charge should understand that the results of a judgment sample describe the sample only. Such results cannot be used to make a statement about the population. Auditing standards for performance audits also require adequate professional competency, statistical sampling skills as necessary, due professional care, and a clear explanation of the evidence gathering and analysis techniques used in the audit. Information on statistical sampling and analysis techniques is disclosed in the scope and methodology section of the audit report.

Properly constructed random samples enable the in-charge to review considerably less than the entire population of interest while allowing for a projection of sample results with given degrees of confidence to the population. In addition:

- Sample results are objective and defensible;
- An estimate of the sampling error can be determined; and
- The results can be replicated by another in-charge.

The reliability of the results can be computed and expressed in numerical terms.

Types of random samples

There are several types of random samples. Use of a particular type of random sample may depend on the audit purpose, cost considerations, access to data, population size and complexity, etc. The following are four types of random samples:

Simple random sample	This is the most common type of random sample but may be more costly or less efficient than other random sample methods. All items in the population have the same chance of being included in the sample.
-----------------------------	--

Systematic random sample	Items or individuals in the population are arranged in some way, such as alphabetically, by date, or by some other method. A random starting point is selected, and then every <i>k</i> th member of the population is selected for the sample. This method ensures that there is an even spread of the sample across the entire population, if there is any pattern in the population.
Stratified random sample	The population is divided into subgroups called strata and a sample is selected from each subgroup. Either a proportional or a non-proportional sample can be selected. A proportional sample procedure requires that the number of items chosen from each stratum be in the same proportion as in the population. In a non-proportional stratified sample, the number of items chosen may be disproportionate to the population. Stratified random samples ensure that items from each subgroup are included in the sample.
Cluster samples	This involves dividing the population into clusters or groups, selecting a sample of those groups, and then selecting a sample of items or persons from the selected sample groups. Sampling serves several purposes in auditing. The most common purpose is to <i>provide an estimate</i> of the population. If the in-charge wishes to count the frequency of an event or an item, the in-charge is engaged in <i>attributes sampling</i> . Examples include counting errors versus non-errors in a transaction, improperly completed requisitions, and the number of clients who have received health care within the past month. With attributes sampling, the in-charge answers questions about “how many.”

Sometimes the audit team member wishes to estimate the average and/or total value of items in the population. In these cases, the in-charge may measure the dollar value of inventory, the average length of time to fill out a requisition, or the number of overtime hours in a given time period. When conducting such measurements the in-charge is engaged in *variables sampling*.

Judgment samples can be used when random samples are not necessary. For example, an in-charge may not need to mathematically project results to the population, but may simply be interested in evaluating a process or determining if all phases of the process are operational. A few items selected on a judgmental basis may be sufficient to provide feedback on whether system activities are functioning. Judgment samples may also be used to provide an indication of the need to proceed with a random sample in fieldwork.

Sampling procedures are part of the audit working papers. Regardless of the type of sample selected, in-charge should document in the working papers, the procedures used to determine the sample size, the type of sample method used, how the sample was chosen, sample results, pertinent characteristics, such as the universe of items cannot be determined, obtain from auditee assessment of potential bias or limitations pertaining to sampling, if any, and, if appropriate, how the results project to the population of interest.

Audit Working Papers

As used in this manual, the term **working papers** refers to all of the following:

- Each document or piece of evidence.
- The summaries and analyses of these documents.
- The body of compiled evidence.

The working papers verify that all planned steps in the project have been carried out. Working papers should:

- Contain adequate indexing and cross-referencing, schedules, and summaries.
- Be dated and initialed by the preparer.
- Be reviewed and initialed by the in-charge and supervisor with the date of review noted.
- Be complete and accurate to provide proper support for findings, judgments, and conclusions, and to demonstrate the nature and scope of work conducted.
- Be understandable without oral explanations, complete and yet concise. Users should be able to readily determine their purpose, data sources, the nature and scope of the work conducted, and the preparer's conclusions.
- Be as legible and neat as practicable, to maintain their worth as evidence.
- Be restricted to matters that are significant and relevant to the objectives of the assignment.
- While filing working papers into project binders, prepare index tabs for only major sections or sub-sections.

The in-charge and any team members index working papers to the workplan. This is the process of noting on the workplan the working paper reference code, date completed, and initials of the in-charge or staff of all working papers that verify completion of the audit tasks. The supervisor verifies that the tasks have been done by initialing and dating the working papers. For any planned task that is not carried out, the in-charge can simply note or prepare a working paper to document and explain the reasons for not completing the task, and the supervisor initials the working paper to document approval.

Working papers also substantiate the adequacy of the methodology used in the project. Where sampling is used, for example, the working papers show how the sample was selected, the validity of the information gathered, and the reasonableness of the results. We also document physical evidence such as photographs. Auditors corroborate the evidence, record the date it was corroborated, and add the information needed to create an audit trail. The in-charge auditor is responsible for ensuring that the working papers and project files are appropriately organized and complete.

Upon completion, the working papers supporting the final audit report, and project files are appropriately labeled by the in-charge and submitted through the supervisor to the auditor for general review before forwarding for filing in the central files.

Working papers help the in-charge auditor organize materials and prepare report outlines and reports. Working papers can also help the audit supervisor monitor the work progress and ensure that it is accurate and timely, document progress toward achieving audit objectives by showing the work done, data collected, and methodology used, and assist in planning for and carrying out subsequent audit assignments.

Finally, working papers provide evidence of audit quality: that the conclusions and judgments in an audit are based on fact and are reasonably supported by the evidence.

Audit standards stipulate that working papers should contain: (1) the audit's objectives, scope, and methodology, including sampling criteria used; (2) documentation of the work performed to support significant conclusions and judgments; and (3) evidence of supervisory review of the work performed. Working papers should contain evidence that meets the standards of sufficiency, relevance, and competence.

Auditors should document in the working papers departures from GAS requirements and the impact on the audit and auditors' conclusions.

Types of Working Papers

There are two main types of working papers that are produced and maintained during the course of an audit:

1. **Interviews.** Interviews are an important source of data collection for audits. As used in this manual, interviews include both face-to-face meetings, email responses, and telephone conversations where information is obtained for the audit. The in-charge or staff auditor prepares a typed record of the face-to-face and telephone interviews as soon after the interview as possible and includes them in the working papers. Printed copies of email responses can serve as a record of an email interview. See interview section for guidance on preparing interview write-ups.
2. **Documents.** The major portion of working papers consists of documents. Primary source documents (e.g. the copy of the audited agency's actual ledgers, rules, data files; transcripts of meetings) and secondary source documents (e.g. summaries of data files, newspaper articles, annual reports, emails, lengthy source documents).

It is important to develop summaries of work performed and conclusions reached. Summaries serve three primary purposes:

1. To analyze the materials collected and summarize the work done.
2. To synthesize the evidence used to support and build the findings and provide an analysis of the materials reviewed.
3. To facilitate review of evidence supporting the draft report.

How evidence is documented in the working papers varies by the type of work performed. The main point is to describe the records examined so that an experienced auditor would be able to examine the same records, noting, for example, file or case numbers. Copies of the documents themselves need not always be included. Working papers may include originals or copies of requests for proposals, contracts, subcontracts, amendments, change orders, drawings, blueprints, schematics, books and records, meeting minutes, reports, correspondence, memoranda, spreadsheets, payrolls, time records, time cards, checks, orders, invoices, vouchers, bills, receipts, papers, accounting records, and other materials and information, whether stored on paper or electronically, pertaining to a city program or project. If computer processed data is relied upon, its reliability must be assessed. Textbooks and other lengthy material used for general background (and not specifically quoted or referenced in the report) are not part of the final working papers. Instead, a bibliographic citation or a copy of excerpted material may be used. Care should be taken to balance the need to document the facts and project parameters required by the audit standards, versus the need to expedite such documentation efforts and deliver the audit in a timely fashion.

The production of working papers begins with the background research conducted for the risk assessment and the planning phase, continues through fieldwork, and is organized during the report preparation and project closure phases. The organization of working papers ties together all the work done for a project. Anyone reviewing the working papers should be able to grasp what was done, why it was done, and how the findings and recommendations in the audit report are justified. When consultants are engaged, working papers are also required to be prepared and organized, and access to the working papers must be provided to ensure that the consultants have gathered evidence that is relevant, sufficient, and competent to support the findings and recommendations made.

Organizing Working Papers

The process of organizing working papers collected for the audit begins at the start of the audit project. Working papers accumulated as evidence are coded according to the requirements and organization of the particular audit. For example, the coding typically begins with the collection of administrative documents used to initiate the audit, establish the audit plan, notify the audited agency of the audit, etc.

Auditors should generally prepare working papers on standard size paper (8½" X 11"), using one side only. The first page of each working paper is initialed and dated by the preparer and initialed and dated by subsequent reviewers. Any change made or note added to the working paper is initialed and dated by the person making the change or note. To facilitate review of working papers, all non-standard size paper, such as legal size spreadsheets or computer generated printouts, should be filed, as practical, in portrait presentation. All non-standard size paper should be attached to a stiff folder type backing and neatly folded to match the borders of a standard letter size paper. Auditors put the following information on the first page of each working paper:

- Index code.
- Initials of preparer.
- Date of preparation.

Lengthy documents (journal articles, book chapters, etc.) that bear their own pagination need not be repaginated when indexing them. In these cases, only the first page of the document should bear all the usual elements of the index code with the addition of the number of pages indicated as a range from page 1 of the document.

Lengthy documents that have pages with no page number, such as title pages or cover sheets, need to be indexed. Either on the top or bottom of the first page of all working papers, the staff auditor should write the project name (abbreviated); purpose for which the evidence was gathered; and source—specific information on the person or agency that supplied the evidence (for example, name, title, telephone number) to provide an audit trail if follow-up is needed. Where appropriate, auditors' judgments, comments, and conclusions that may be helpful in developing findings and recommendations should be placed on the working paper in an appropriate location.

Securing Working Papers

During the course of a project, the in-charge and team members are responsible for the safe custody of working papers. These materials must be protected from theft or destruction and be accessible only to authorized persons. As a general rule, working papers should not be left at the auditees' work site unless they can be secured under lock. As needed, sensitive or confidential materials may be placed in locked cabinets. To safeguard their data, auditors should back up their computer data files to a zip drive or disk as necessary.

Disclosing Working Papers

In order to comply with California State Government Code Section 36525 regarding retention and disclosure of audit working papers, the Office policy will include the following:

1. Retain all audit work papers on site for at least three years.
 - Retain workpapers in City storage for at least five years to comply with City retention policy.
 - Retain financial or Federal grant related workpapers for at least seven years to comply with Federal regulations [Federal Register Volume 69 No.138].
2. Withhold from public disclosure all information related to audits that are in progress and not yet completed.
3. Withhold from public disclosure information that is collected in the course of audit work, but is not used to support a specific finding in the audit.
4. At the City Auditor's discretion, hold confidential any information from anyone cooperating with an audit who has requested, in writing, that we do so.

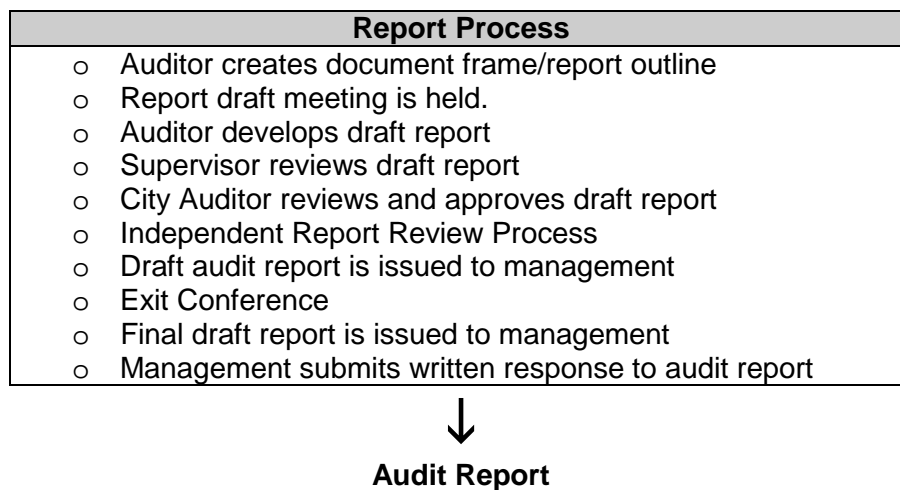
Section 7

Reporting Audit Results

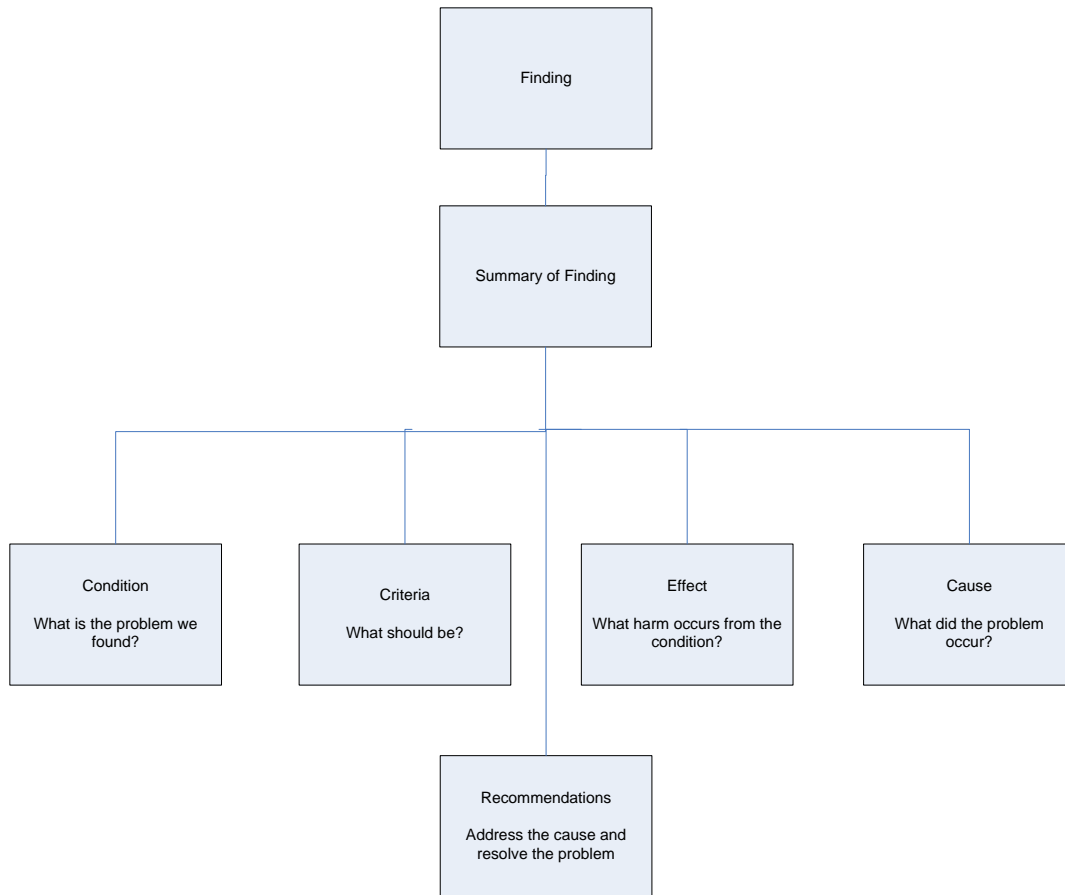
This section of the Audit Manual documents the report writing process, identifies GAGAS standards related to reporting for performance audits, and documents the Office of the City Auditor policies and procedures and steps related to developing and issuing an audit report. The reporting standards for performance audits relate to the form of the report, the report contents, and report issuance and distribution.

REPORT PROCESS

The report process begins at the end of field work, after auditors have completed all of the audit steps in the field work audit program and developed preliminary findings.



1. Auditor creates document frame/report outline based on preliminary audit finding. The auditor drafts an introduction or summary that identifies the key issues and components of the report summary. The report summary can be presented as text box, as shown in the next page, or presented as report outline. As discussed in Section 5, the auditor needs to ensure the report outline contains the elements of a finding. A meeting is held with the City Auditor and Audit Manager to discuss the report outline.



2. A report draft meeting is held to discuss the report frame/outline. The purpose of the meeting is to obtain City Auditor and Audit Manager input on the proposed findings. Additional work may be required or if agreement is reached, the auditor proceeds to drafting the report draft.
3. Auditor develops draft report based on office guidelines. See page 97 for specific report content requirement and pages 105 to 109 for general writing guidelines. See page 104 for the Report Writing audit program.
4. Audit Supervisor reviews the draft report by checking that evidence is accurate and sufficient and that the findings, conclusions, and recommendations are well-argued and supported.
 - Overall quality of the draft and its consistency with the reporting standards for content and presentation.
 - Responsiveness to the assignment objectives.
 - Soundness of the evidence supporting the findings and recommendations.
 - Logic, reasonableness, and soundness of the argument supporting the findings and recommendations.
 - Appropriateness, constructiveness, and specificity of recommendations.
 - Professional quality of the writing and presentation.

Once the Supervisor's comments have been addressed, the report draft is submitted to the City Auditor for review.

5. The City Auditor reviews the draft report for message content, readability, and tone. The in-charge auditor makes changes to the report draft as appropriate and submits the revised report draft back to the City Auditor for review. At this point, the report draft may undergo a separate editorial review.
6. After the City Auditor approves the draft report for issuance, the draft report undergoes an Independent Report Review. As discussed in Section 3, the independent report review is an important component of our quality assurance program. It is a detailed word-by-word, line-by-line examination of an indexed office draft of the report to ensure that its contents are accurate and supported. The City Auditor or Supervisor assigns an audit staff member who has not worked on the project to verify the accuracy of the information and whether the evidence supports the contents of the draft. Once this process is complete, the in-charge will prepare the report for distribution, including proper formatting.
7. Draft report issued to entity management. Report draft should be transmitted as a PDF file to entity management.
8. Exit meeting is held to review and discuss report with management. Meeting can be scheduled in advance.
9. Final draft report is issued. Management has two weeks to respond to draft report. City Auditor may grant a one week extension.
10. Final Audit report issued.

REPORTING STANDARDS

Auditing standards require that auditors must issue audit reports communicating the results of each completed performance audit. The standards provide auditors flexibility in determining reporting format. Auditors should use a form of the audit report that is appropriate for its intended use and is in writing or in some other retrievable form. For example, auditors may present audit reports using electronic media that are retrievable by report users and the audit organization. The users' needs will influence the form of the audit report. Different forms of audit reports include written reports, letters, briefing slides, or other presentation materials. The City Auditor will decide on the most appropriate report format.

The purposes of audit reports are to (1) communicate the results of audits to those charged with governance, the appropriate officials of the audited entity, and the appropriate oversight officials; (2) make the results less susceptible to misunderstanding; (3) make the results available to the public, as applicable; and (4) facilitate follow-up to determine whether appropriate corrective actions have been taken.

Office of the City Auditor Report Content Policy

Auditors should prepare audit reports that contain (1) the objectives, scope, and methodology of the audit; (2) the audit results, including findings, conclusions, and recommendations, as appropriate; (3) a statement about the auditors' compliance with GAGAS; (4) a summary of the views of responsible officials; and (5) if applicable, the nature of any confidential or sensitive information omitted. The Audit Standards Plan will document compliance with these provisions. The published report should include an executive summary, mission statement describing the purpose and authority of the office, title page, transmittal letter, executive summary, table of contents, introductory material, background, findings, recommendations, notes, appendixes, and responses of the affected agencies.

Transmittal Letter

Letter addressed to the Members of the Audit Committee and cc's the Mayor, City Council members, Chief Operating Officer, Chief Financial Officer, Chief Deputy Operating Officer, department directors, Independent Budget Analyst, and City Attorney. Includes report title, reference to a written response, committee date, and audit team members.

Executive Summary

The executive summary briefs the reader on the substance of the report. It highlights the key findings and issues and summarizes the recommendations and agency responses. The summary is generally a point-by-point summary of the report, using a bullet-type format to highlight the findings and recommendations of the report.

Introductory Chapter

Usually the first chapter explains the impetus and authority for the report, gives some background on the subject of the report, lists the objectives of the assignment, describes the scope and methodology of work, and declares any significant limitations. Normally this section contains a statement that the project was conducted according to generally accepted government auditing standards and describes any review of management controls.

Reporting Auditor's Compliance With GAGAS

The standards require that when auditors comply with all applicable GAGAS requirements, they should use the following language, which represents an unmodified GAGAS compliance statement, in the audit report to indicate that they performed the audit in accordance with GAGAS:

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our

audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Office of the City Auditor Policy on Compliance with GAGAS

All City Auditor reports will be done in accordance to GAGAS and will have the above statement in the Objective, Scope, and Methodology section of the audit report. In the event of non-compliance with any applicable GAGAS requirement, we should include a modified GAGAS compliance statement in the audit report. We can modify the above statement and indicate the standard that was not followed or specify that we did not follow GAGAS.

Background

The background prepares the reader for the material to follow and enables the reader to better understand the findings and recommendations. Findings, conclusions, or recommendations are not discussed in the background. The background may include information on the following elements: the authority and purpose of the program being examined, the character and responsibilities of the administering organization, funding sources and expenditures, staffing and organization, the nature of the subject being studied, and key concepts and terms.

Objectives, Scope, and Methodology

All audit reports should include a description of the audit objectives and the scope and methodology used for addressing the audit objectives. This information allows report users to understand the audit purpose, the nature and extent of the audit work performed, the context and perspective regarding what is reported, and any significant limitations in audit objectives, scope, or methodology.

reporting confidential or sensitive information

If certain pertinent information is prohibited from public disclosure or is excluded from a report due to the confidential or sensitive nature of the information, auditors should disclose in the report that certain information has been omitted and the reason or other circumstances that makes the omission necessary.

Certain information may be classified or may be otherwise prohibited from general disclosure by federal, state, or local laws or regulations. In such circumstances, auditors may issue a separate, classified or limited use report containing such information and distribute the report only to persons authorize. Additional circumstances associated with public safety and security concerns could also justify the exclusion of certain information from a publicly available or widely distributed report.

Report Findings

In the audit report, auditors should present sufficient, appropriate evidence to support the findings and conclusions in relation to the audit objectives. Clearly developed findings assist management or oversight officials of the audited entity in understanding the need for taking corrective action. If auditors are able to sufficiently develop the elements of a finding, they should provide recommendations for corrective action if they are significant within the context of the audit objectives. However, the extent to which the elements for a finding are developed depends on the audit objectives. Thus, a finding or set of findings is complete to the extent that the auditors address the audit objectives.

Auditors should describe in their report limitations or uncertainties with the reliability or validity of evidence if (1) the evidence is significant to the findings and conclusions within the context of the audit objectives and (2) such disclosure is necessary to avoid misleading the report users about the findings and conclusions.

Deficiencies in Internal Controls

Auditors should include in the audit report (1) the scope of their work on internal control and (2) any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed. When auditors detect deficiencies in internal control that are not significant to the objectives of the audit, they may include those deficiencies in the report or communicate those deficiencies in writing to officials of the audited entity unless the deficiencies are inconsequential considering both qualitative and quantitative factors. Auditors should refer to that written communication in the audit report, if the written communication is separate from the audit report.

Fraud, Illegal Acts, Violations of Provisions of Contracts or Grant Agreements, and Abuse

When auditors conclude, based on sufficient, appropriate evidence, that fraud, illegal acts, significant violations of provisions of contracts or grant agreements, or significant abuse either has occurred or is likely to have occurred, they should report the matter as a finding.

When auditors detect violations of provisions of contracts or grant agreements, or abuse that are not significant, they should communicate those findings in writing to officials of the audited entity unless the findings are inconsequential within the context of the audit objectives, considering both qualitative and quantitative factors. Determining whether or how to communicate to officials of the audited entity fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that is inconsequential is a matter of the auditors' professional judgment. Auditors should document such communications.

When fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse either have occurred or are likely to have occurred, auditors may consult with authorities or legal counsel about whether publicly reporting such information would compromise investigative or legal proceedings. Auditors may limit their public reporting to matters that would not compromise those proceedings, and for example, report only on information that is already a part of the public record.

Outside Reporting

When management fails to act regarding the reporting of fraud, illegal acts, violations of contract provisions and grant agreements, we have an obligation to report to parties outside the audited entity. The standards require outside reporting in the following two circumstances:

1. When entity management fails to satisfy legal or regulatory requirements to report such information to external parties specified in law or regulation, auditors should first communicate the failure to report such information to those charged with governance. If the audited entity still does not report this information to the specified external parties as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the information directly to the specified external parties.
2. When entity management fails to take timely and appropriate steps to respond to known or likely fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that (1) is significant to the findings and conclusions, and (2) involves funding received directly or indirectly from a government agency, auditors should first report management's failure to take timely and appropriate steps to those charged with governance. If the audited entity still does not take timely and appropriate steps as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the entity's failure to take timely and appropriate steps directly to the funding agency.

The City Auditor will be responsible for determining when management has failed to act appropriate regarding the reporting of fraud, illegal acts, violations of contract provisions and grant agreements. The City Auditor will be responsible for reporting to outside entities.

Conclusions

Auditors should report conclusions, as applicable, based on the audit objectives and the audit findings. Report conclusions are logical inferences about the program based on the auditors' findings, not merely a summary of the findings. The strength of the auditors' conclusions depends on the sufficiency and appropriateness of the evidence supporting the findings and the soundness of the logic used to formulate the conclusions. Conclusions are stronger if they lead to the auditors' recommendations and convince the knowledgeable user of the report that action is necessary. All audit reports must have conclusions.

Recommendations

Auditors should recommend actions to correct problems identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. Auditors should make recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified problems, and clearly state the actions recommended. Effective recommendations encourage improvements in the

conduct of government programs and operations. Recommendations are effective when they are addressed to parties that have the authority to act and when the recommended actions are specific, practical, cost effective, and measurable.

Recommendations should be specific and clear, and directed at resolving the cause of identified problems. Auditors should avoid using verbs such as, consider or may in report recommendations, but make recommendations that are action oriented. Recommendations should be made to improve operations or program effectiveness, or improve economy and effectiveness.

Reporting Views of Responsible Officials

Audit standards require that we include the views of responsible officials of the audited entity and the corrective actions they plan to take. Providing a draft report with findings for review and comment by responsible officials of the audited entity and others helps the auditors develop a report that is fair, complete, and objective.

Obtaining the comments in writing is preferred, but oral comments are acceptable.¹ When auditors receive written comments from the responsible officials, they should include in their report a copy of the officials' written comments, or a summary of the comments received. Obtaining oral comments may be appropriate when, for example, there is a reporting date critical to meeting a user's needs; auditors have worked closely with the responsible officials throughout the conduct of the work and the parties are familiar with the findings and issues addressed in the draft report; or the auditors do not expect major disagreements with the findings, conclusions, and recommendations in the draft report, or major controversies with regard to issues discussed in the draft report.

Auditors should also include in the report an evaluation of the comments, as appropriate. In cases in which the audited entity provides technical comments in addition to its written or oral comments on the report, auditors may disclose in the report that such comments were received. When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditors' recommendations, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported with sufficient, appropriate evidence.

If the audited entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the auditors may issue the report without receiving comments from the audited entity. In such cases, the auditors should indicate in the report that the audited entity did not provide comments.

¹ When the responsible officials provide oral comments only, auditors should prepare a summary of the oral comments and provide a copy of the summary to the responsible officials to verify that the comments are accurately stated.

Office of the City Auditor Policy On Reporting Views of Responsible Officials

All audited entity officials will be provided ample opportunity to review and comment on draft audit reports. Once a draft audit report has been approved by the City Auditor and has undergone Independent Report Review, a draft report will be issued to management to discuss at an exit conference.

The purpose of the exit conference meeting is to provide the responsible officials of the audited program the opportunity to state their views concerning the auditors' findings, conclusions, and recommendations, as well as corrections planned. To ensure that the audit report is fair, complete, and objective, the City Auditor provides the auditee an audit report draft and invites auditee representatives to the Exit Conference in which the auditee representatives can state their views concerning the audit findings, conclusions, and recommendations. At this meeting, the auditee representatives will also explain the corrections they plan to do in response to the audit findings and recommendations. Based on the outcome of the exit conference, a final draft report, incorporating any changes discussed at the meeting will be issued to management. Entity management will have two weeks to respond to the final draft report. The City Auditor may grant a one week extension. *Note: the new response period will require changing Administrative Regulation 15.10 which allows Department Directors 60 days to respond to audit recommendations.*

In addition to their written response, entity management may submit a separate one to two page memorandum of program accomplishments to include in the final draft report. This memorandum helps ensure that the final report is fair, complete, and objective.

Report Distribution

Auditing standards require that we distribute audit reports to those charged with governance, to the appropriate officials of the audited entity, and to the appropriate oversight bodies or organizations requiring or arranging for the audits. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations, and to others authorized to receive such reports. All reports will be made available to the public by posting them on the City Auditors website except when certain information may be classified or otherwise prohibited from general disclosure.

If after a report is issued, auditors discover that they did not have sufficient, appropriate evidence, the City Auditor will communicate this information to appropriate officials, remove the report from the Office of the City Auditor website, and determine whether to conduct additional audit work necessary to reissue the report with revised findings or conclusions.

January 1, 2009

Honorable Members of the
Audit Committee
City of San Diego
202 C Street
San Diego, CA 92101

Transmitted herewith is a report on _____.
This report is in accordance with 2009 Approved Workplan. A
written response from the _____ Department is included in
the report.

I would like to thank City staff for their cooperation and
assistance in completing this audit.

This report will be presented to the Audit Committee at
its January 14, 2008 meeting. If you need any additional
information, please let me know. The City Auditor's staff that
participated in this report are _____, and _____.

Respectfully Submitted,

Eduardo Luna
City Auditor

cc: Honorable Mayor and City Council
Chief Operating Office
Chief Financial Officer
Honorable City Attorney
Independent Budget Analyst
Department Director

Report Writing Audit Program

Audit Procedures
Report Writing
<ol style="list-style-type: none">1. Report Frame/Outline2. Report Outline Meeting3. Auditor develops draft report4. Supervisor reviews draft report5. City Auditor reviews and approves draft report6. Independent Report Review Process7. Report draft is edited8. Draft audit report issued to management9. Exit Conference10. Final draft report is issued to management11. Management submits written response to audit report12. Final audit report is issued with written response.

SUPPLEMENTAL GUIDANCE ON REPORT WRITING

This supplemental section provides guidance on writing audit reports and describing audit report formats.

Finding Chapter

Most reports issued by the office contain findings and conclusions called for by the objectives and supported by the evidence. Findings are the determinations made as a result of the work of the project; conclusions interpret the meaning of the findings and other report material and link all portions of the discussion. Findings include significant instances of noncompliance and uncorrected deficiencies from past audits that affect the objectives of the current audit.

We include sufficient, competent, and relevant information to produce understanding of the findings, including any background information necessary.

Audit findings often have been viewed as containing the elements of criteria, condition, effect, and when problems are found, the cause. However, the elements needed for a finding depend on the project objectives. A finding is considered *complete* if it meets the objectives of the project and the standards of evidence and is convincing.

Example of Findings

The presentation of findings follows traditional strategies of argument and persuasion. As a general rule, the report follows a deductive structure with the main issue or problem stated upfront in a summary statement such as the following example:

The Department of Labor does not give applicants enough information when it denies their requests for unemployment benefits.

The order of presenting in detail the elements of the finding may then vary somewhat, but a frequent approach is to begin by describing the condition with supporting evidence such as the following example:

Over 60 percent of the unemployment benefit case files we reviewed did not provide sufficient information on the reasons for the department's decisions. Denial notices for unemployment benefit claims were especially poor. Department employees often stated that the claims were denied because employment connection was not found.

The condition is measured against criteria such as standards, statutes, rules, or common sense. The report describes the criteria and explains why they are applicable such as the following example:

Simply telling an applicant that an employment connection was not found does not explain the decision. It does not (1) explain why employment connection was not found, (2) identify the evidence considered in adjusting

the claim, or (3) provide an applicant with any indication of how the agency reached its decision. Yet the department's statement of procedural and appellate rights tells an applicant to consider this kind of information when deciding whether to appeal.

A discussion of effect gives significance to the finding. It shows why the problem warrants attention and helps stimulate interest in correcting it. Whenever possible, the discussion quantifies the effect in dollars, time, service, and so forth as in the following example:

The importance of giving an applicant a full explanation of the department's decision can be seen in the following case study. In June 1986, an applicant sought 100 percent of unemployment benefits for employment service with two recent employers. In this particular case, the claim was eventually awarded after a delay of four months when the applicant's former employers sent a copy of the company's unemployment insurance policy to the department and the claim was reopened.

Attributing a cause or causes to a condition means explaining why and how the problem occurred. Recommendations are often addressed to the causes as in the following example:

One major limitation is the department's centralized computer system that produces most decision notices. If the system is to provide more meaningful information, it has to be made more flexible. It is a rigid system that does not accommodate review and evaluation of correspondence, changes, additions to notices, or details of specific claim actions. To generate a notice using this system, staff members can select from only a limited number of standardized, general paragraphs available on the system. They cannot change or expand the content of the notice to include the information the applicant needs.

We recommend that the director modify the computer system to provide greater flexibility in the preparation of decision notices. At a minimum, notices should list the evidence considered and the best rationale for decisions.

Report Readability Is The Number One Goal!

Audit reports must be readable, that is, the reader can understand the writer's intended message. Report readability is affected by seven elements:

Content	A key to a clear audit message is to ensure the audit objectives have been met. Readers need to see that the findings address the questions raised by the audit objectives and the recommendations clearly emerge from those findings. The report message must be clear and supported and flow logically from the audit objective
Organization	Audit reports must be organized in manner that allows busy readers to find important information and easily understand the report message and significance. Putting the message upfront helps readers understand the message quickly and easily.
Format	Reports should be formatted with related sections that are labeled with informative titles.
Paragraphs	Should be presented deductively with both unity and coherence, allowing readers to understand the relationship among the reported information. Every sentence supports or develops the main point established at the beginning of the paragraph. Sentences should follow each other logically and smoothly. Limit paragraphs to 10 lines.
Sentences	Structure must be logical and answer what is the action, who is responsible for the action, and who is affected by the action; or follow the structure "what is equal to what." Sentences should be less than 30 words and use active voice.
Word Choice	Use plain language that is accurate. Avoid jargon and legalese.
Mechanics	Proper and correct grammar and sentence structure.

Past Audit Guidance Is Relevant

Auditors should also strive to produce reports that meet past GAO guidance. The 2003 Revision of Government Auditing Standards required that audits reports should be timely, complete, accurate, objective, convincing, clear, and as concise as the subject permits. However, the July 2007 revision removed this language from the standards. Nevertheless, the City Auditor these reporting elements should serve as guides for writing audit reports.

Timely To be of maximum use, the audit report needs to provide relevant information in time to respond to officials of the audited entity, council, and other users' legitimate needs. Likewise, the information provided in the report needs to be current. Therefore, auditors should plan for the appropriate issuance of the report and conduct the audit with these goals in mind.

Complete Being complete requires that the report contain all evidence needed to satisfy the audit objectives and promote an adequate and correct understanding of the matters reported. It also means the report states information and findings completely, including all necessary facts and explanations. Giving report users an adequate and correct understanding means providing perspective on the extent and significance of reported findings, such as the frequency of occurrence relative to the number of cases or transactions tested and the relationship of the findings to the entity's operations.

Accurate Accuracy requires that the evidence presented be true and that findings be correctly portrayed. The need for accuracy is based on the need to assure report users that what is reported is credible and reliable. One inaccuracy in a report can cast doubt on the reliability of an entire report and can divert attention from the substance of the report. Also, use of inaccurate evidence can damage the credibility of the issuing audit organization and reduce the effectiveness of its reports.

Evidence included in audit reports should demonstrate the correctness and reasonableness of the matters reported. Correct portrayal means describing accurately the audit scope and methodology and presenting findings and conclusions in a manner consistent with the scope of audit work. The report also should not have errors in logic and reasoning.

Objective Objectivity requires that the presentation of the entire report be balanced in content and tone. A report's credibility is significantly enhanced when it presents evidence in an unbiased manner so that report users can be persuaded by the facts. The report should be fair and not misleading and should place the audit results in perspective. This means presenting the audit results impartially and fairly. In describing shortcomings in performance, auditors should put findings in context. For example, the audited entity may have faced unusual difficulties or circumstances.

- Convincing** Being convincing requires that the audit results be responsive to the audit objectives, that the findings are presented persuasively, and that the conclusions and recommendations follow logically from the facts presented. The information presented should be sufficient to convince users to recognize the validity of the findings, the reasonableness of the conclusions, and the benefit of implementing the recommendations. Reports designed in this way can help focus the attention of responsible officials on the matters that warrant attention and can provide an incentive for taking corrective action.
- Clear** Clarity requires that the report be easy to read and understand. Reports should be prepared in language as clear and simple as the subject permits. Use of straightforward, non-technical language is essential to simplicity of presentation. Whenever technical terms, abbreviations, and acronyms are used, they should be clearly defined.
- Concise** Being concise requires that the report be no longer than necessary to convey and support the message. Extraneous detail detracts from a report, may even conceal the real message, and may confuse or distract the users. Also, needless repetition should be avoided. Although room exists for considerable judgment in determining the content of reports, those that are fact-based but concise are likely to achieve greater results.

Section 8

Risk Assessment, Audit Work Plan, Recommendation Follow-Up, and Monthly and Annual Reports

In this section of the audit manual, we discuss the process for developing a citywide risk assessment model, an annual audit work plan, recommendation following-up, and communicating audit achievements through quarterly reports and a bi-annual accomplishments and activities report.

Citywide Risk Assessment Model

On an annual basis, the Office of the City Auditor will conduct a Citywide Risk Assessment to identify potential audit subjects. Generally Accepted Government Auditing Standards (GAGAS) and the Institute of City Auditors' Standards (IIAS) require the chief audit executive to establish a risk-based approach to determine the priorities for internal audit activities. The Office of the City Auditor will complete a Citywide Risk Assessment as a means to help identify, measure, and prioritize the City's potential audits based on the level of risk to the City. The results of the completed Citywide Risk Assessment will be utilized in preparing City Auditor's Audit's annual work plan. When a City Activity Group is selected to be audited, we will perform a more in depth risk assessment to ensure our audit procedures cover the areas of highest risk for that Activity Group.

The objective of this risk assessment process is to identify, measure, and prioritize the City's potential audits (auditable units) based on the level of risk to City operations.

There are four main steps that will be followed to prepare the annual Citywide Risk Assessment Model:

1. Review professional standards.
 - a. Review the current GAGAS and IIAS recommended procedures for risk assessments.
 - b. Review risk assessment models currently used by other similar government entities.
2. Define the City's audit universe.
 - a. The audit universe is a listing of all of the City's significant "Auditable Units" (all of the potential audits that could be performed).
 - b. Create a list of all City Departments and significant City Agencies and their primary functions (Activity Groups) as the Auditable Units.
 - c. Use City budget and/or other data available, the City's CAFR, prior audits, and input from those in charge of operations to create the audit universe.

3. Identify and rank major risks related to the City's Auditable Units.
 - a. Those in charge of City operations will complete questionnaires designed to identify and rank the major risks associated with the City's primary activities (Auditable Units).
 - b. The questionnaires will be designed to measure quantifiable risk factors to score the level of risk for the City's Auditable Units. Examples of measurable risk factors are:
 - Budgeted expenditures.
 - Budgeted revenue.
 - Number of budgeted employees.
 - Annual value of citywide transactions responsible for in addition to budgeted expenditures and revenue (e.g. Payroll Section reviews citywide payroll payments of approx \$650 million annually).
 - Liquidity and negotiability of assets (Level of cash and assets easily converted to cash handled by the department).
 - Compliance with regulations (Level of potential loss due to regulatory sanctions or penalties).
 - Public exposure and interest.
 - Complexity of transactions.
 - Quality of internal controls.
 - c. The questionnaires completed by management will assign a risk score of 0 (low), 3 (medium low), 5 (medium), 7 (medium high), or 9 (high) for each of the measurable risk factors used based on the answers provided.
4. Complete the Citywide Risk Assessment by calculating the total risk score for each Auditable Unit and sort them in order of highest risk score to the lowest.
 - a. Tabulate the risk scores gathered from the questionnaires
 - b. Determine the weights that will be assigned to each risk factor based on relative importance.
 - c. Calculate the total risk score for each auditable unit by applying the weights to the risk scores and compute the total.
 - d. Determine the risk ranking for each auditable unit by stratifying the total risk scores in descending order by tenths, and identifying the top 30 percent (or those ranking 10, 9, or 8) as High Risk, the next 40 percent (ranking 7, 6, 5, 4) as Medium Risk, and the bottom 30 percent (score of 3, 2 or 1) as Low Risk.

The Auditable Units (City Departments / Agencies and their primary functions) with a high risk score merely indicates that the services they provide or the functions they are responsible for are by nature a high risk activity because of such factors as having a large amount of expenditures and revenues or a high level of liquid assets such as cash. A high risk score indicates that if something were to go wrong within that Activity Group, it could have a greater impact to the City than a lower risk Activity Group. A high risk score does not mean that an activity is being managed ineffectively or indicate

whether adequate internal controls are in place and functioning as intended. The overall results identify the activities with the highest risk factors that may warrant and benefit from additional management action or audit services. The completed Risk Assessment Model will form the basis for the City Auditor's Audit Work Plan. Annually, the Audit Committee will place on the meeting agenda the risk assessment report along with the proposed audit work plan.

Audit Work Plan

At the beginning of each fiscal year, the City Auditor will propose an annual audit work plan that will identify all proposed audits to be undertaken throughout the year. The work plan will identify 1) all audits in progress; 2) audits not started; 3) required annual audits, such as the Report on Internal Controls, and Inventory Audit; 4) on-going audit assignments, such as close-out audits and Fraud Hotline referrals; 5) newly proposed audits based on the Citywide Risk Assessment model; and 6) input from the Mayor, City Council, and Administration on potential audit subjects. Additional information will include audit type, estimated start and completion date, and estimated audit hours. Audit requests received during the fiscal year will be addressed through the Audit Committee.

The Annual Audit Work Plan will be presented to the Audit Committee on an annual basis at the second meeting of the fiscal year together with the results of the risk assessment. Requests to add audits to the work plan midyear will be presented to the Audit Committee with a City Auditor analysis of the impact of adding the proposed audit to the work plan.

Recommendation Follow-Up Process

In order to ensure recommendations are implemented on a timely basis, the City Auditor will undertake an semi-annual recommendation follow-up process to track the status of all previous audit recommendations. Beginning in February 2009, the City Auditor will prepare an semi-annual report on the status of all open recommendations for the previous six months ending December 31, 2008.

In January 2009, the Office will send out a listing of all open recommendations to the responsible management official, who would then have 30 days to respond to the City Auditor on the status of the recommendations, including a target implementation date. If recommendations have been implemented, the management official should submit proof of implementation. All management responses should be approved by the Department Director and the Chief Operating Officer, or his designee. Audit staff will review management responses and conduct follow-up work to verify the recommendation status. For each open recommendation, audit staff will write a brief summary of their findings, and note if the recommendation is implemented, partly implemented, or not implemented. The report will also call out recommendations that need additional funding for implementation; result in increased revenues; or achieve cost savings for the City. The Administration will have an opportunity to review the draft recommendation report prior to issuance.

Annually, the Audit Committee will place on the meeting agenda the Recommendation Follow-up Report. The City Auditor will make a presentation on the status of all previously issued recommendations, with estimated timeframes for implementation.

Monthly Reports To Audit Committee

Each month, the City Auditor will issue a report to the Audit Committee. The report will include 1) a listing of issued audit reports and memorandums; 2) a listing of all ongoing audit assignments, including information on audit status, hours, and target issuance date; 3) approved audits not started; and 4) a listing of significant City Auditor and staff activities and accomplishments. .

On a quarterly basis, the Audit Committee will place on the meeting agenda a quarterly update from the City Auditor regarding office activities and accomplishments. The City Auditor will present a summary of the information contained in the monthly reports issued for the previous three months.

Annual Accomplishments and Activities Report

Public accountability is an important component of trust. It is essential for the Office of the City Auditor to make public a record of its activities and accomplishments on an annual basis. Beginning in fiscal year 2010, the City Auditor will issue an annual report for the period July1, 2008 to June 30, 2009, with the following information:

- Audit authority and responsibility.
- Mission statement.
- Information on types of audits performed.
- Benefits to city, in terms of cost savings and increased revenues, in comparison to audit costs.
- Audit recommendations by type—Improve operations or program effectiveness, or improve economy and effectiveness.
- Office information, including budget and number of personnel.
- Audit work plan and Citywide Risk Assessment process.
- Organizational chart.
- Staff information including education, certifications, and work experience.
- Noteworthy recognition, appointments, and awards.
- Website information and statistics.
- Summary of audit work performed - executive summary of audit reports.
- Most recent peer review report.

The City Auditor will distribute this report to the Mayor, City Council, and the Audit Committee members. If desired, this report will be scheduled for an Audit Committee meeting.

Section 9

Fraud Hotline Procedures

In this section of the audit manual, we discuss the City Auditor's policy and procedures for reviewing and reporting on Fraud Hotline referrals.

Overview of the Employee Hotline & Complaint Program

Introduction

The Office of the City Auditor, through a third party provider, administers the City's Employee Fraud Hotline. The City Auditor also directly accepts employee and citizen complaints. The primary objective of the Employee Hotline/Complaint program is to provide a means for City of San Diego employees and citizens to confidentially report 1) any activity or conduct in which he/she suspects instances of fraud, waste, or abuse and 2) violations of certain federal or state laws and regulations (e.g., laws prohibiting discrimination or whistleblower laws).

Upon completion of a hotline call, the third-party provider sends Incident Reports to the City Auditor and his or her representative. On a regular basis, the City Auditor will convene a Hotline Intake Review Committee to review (non-fraud) complaints related to personnel, discrimination, and harassment, and employee relation-related complaints. The Hotline Intake Review team will include the following: (1) City Auditor (2) Labor Relations Director, and (3) Personnel Director or their designees. All non-fraud complaints and concerns are reviewed by the Intake and Review Committee for a determination of whether the allegation(s) are credible and the appropriate referral for action. Complaints or allegations related to fraud, waste, or abuse **will not** be shared or discussed with members of the Hotline Intake Review Team.

Incident Report Dissemination

Incident Reports are disseminated by the third-party provider, within two hours via email to the City Auditor and his or her designee. As complaints are received, the City Auditor reviews and evaluates the seriousness of the allegation(s) to determine if the Intake and Review Committee should meet immediately for non-fraud related complaints. Otherwise, the Intake and Review Committee convenes every two weeks to review the non-fraud Incident Reports received to decide upon the referral of each report or any other appropriate action. A complaint may be referred to:

- Deputy Chief
- Department Director
- Ethics Commission
- Citizens Review Board of Police Practices
- Equal Employment Investigation Office
- Other referral as deemed appropriate by the Committee

The Office of the City Auditor will perform an investigation following the procedures recommended by the Association of Certified Fraud Examiners for any allegations of improper financial activity and fraud, waste and/or abuse that appear to be material in nature. The scope of the investigation will be to determine if the accusations made are valid and to determine if there are any potential internal control weaknesses that need to be corrected that allowed fraud, waste and/or abuse to occur.

For each significant fraud related allegation, preliminary evidence will be gathered such as reviewing the information provided via the hotline, reviewing other pertinent records and interviewing appropriate witnesses to assess if the allegation appears to be valid. The City Auditor will notify and consult with the Police Department and City Attorney for any circumstances that appear to involve criminal activity. Investigative procedures will continue for each significant allegation until a case can be made for prosecution or it is determined that there is insufficient evidence of fraud. Investigative procedures will include but are not limited to:

- Documenting the allegation in writing;
- Interviewing potential witnesses and documenting the information gathered;
- Identifying all possible schemes or indicators of fraud related to the allegation;
- Notifying and consulting with the Police Department and City Attorney's Office;
- Developing an investigative plan and determining the type of evidence to pursue; and
- Gathering evidence and performing analysis as is appropriate, such as:
 - Reviewing accounting records, payroll records, bank records, canceled checks, credit card records, etc.
 - Downloading and analyzing electronic data
 - Reviewing emails and written correspondences
 - Imaging computer hard drives and reviewing the files and activities

The City Auditor will maintain the appropriate level of confidentiality regarding all complaints. Any audit reports issued to the public will not include any confidential information that cannot be disclosed, such as personnel issues.

For any material internal control weakness that are identified during the investigation of hotline complaints, an audit will be performed in compliance with Generally Accepted Government Auditing Standards to determine the extent of the internal control weaknesses identified and to issue an audit report with appropriate recommendations to correct the deficiencies found. The Fieldwork Standards, Audit Planning, and Reporting of Audit Results described in Sections 4 through 7 of this manual will be followed for all audits of internal controls resulting from Hotline referrals.

Reporting

On a quarterly basis, the City Auditor will provide a summary report to the Audit Committee regarding the number of calls to the hotline, category of calls received, and call disposition. The Audit Committee will place on the meeting agenda a quarterly update from the City Auditor regarding the hotline. The City Auditor will make a presentation regarding the hotline results.

Section 10

Supplemental Guidance On Internal Control, Abuse, Fraud, and Assessing Significance of Laws, Regulations, Or Provisions Of Contracts Or Grant Agreements

The following sections provide supplemental guidance for auditors and the audited entities to assist in the implementation of generally accepted government auditing standards (GAGAS).

The following are examples of control deficiencies:

- a.** Insufficient control consciousness within the organization, for example the tone at the top and the control environment. Control deficiencies in other components of internal control could lead the auditor to conclude that weaknesses exist in the control environment.
- b.** Ineffective oversight by those charged with governance of the entity's financial reporting, performance reporting, or internal control, or an ineffective overall governance structure.
- c.** Control systems that did not prevent or detect material misstatements so that it was later necessary to restate previously issued financial statements or operational results. Control systems that did not prevent or detect material misstatements in performance or operational results so that it was later necessary to make significant corrections to those results.
- d.** Control systems that did not prevent or detect material misstatements identified by the auditor. This includes misstatements involving estimation and judgment for which the auditor identifies potential material adjustments and corrections of the recorded amounts.
- e.** An ineffective internal audit function or risk assessment function at an entity for which such functions are important to the monitoring or risk assessment component of internal control, such as for a very large or highly complex entity.
- f.** Identification of fraud of any magnitude on the part of senior management.
- g.** Failure by management or those charged with governance to assess the effect of a significant deficiency previously communicated to them and either to correct it or to conclude that it will not be corrected.
- h.** Inadequate controls for the safeguarding of assets.
- i.** Evidence of intentional override of internal control by those in authority to the detriment of the overall objectives of the system.

j. Deficiencies in the design or operation of internal control that could result in violations of laws, regulations, provisions of contracts or grant agreements, fraud, or abuse having a direct and material effect on the financial statements or the audit objective.

k. Inadequate design of information systems general and application controls that prevent the information system from providing complete and accurate information consistent with financial or performance reporting objectives and other current needs.

l. Failure of an application control caused by a deficiency in the design or operation of an information systems general control.

m. Employees or management who lack the qualifications and training to fulfill their assigned functions.

The following are examples of abuse, depending on the facts and circumstances:

a. Creating unneeded overtime.

b. Requesting staff to perform personal errands or work tasks for a supervisor or manager.

c. Misusing the official's position for personal gain (including actions that could be perceived by an objective third party with knowledge of the relevant information as improperly benefiting an official's personal financial interests or those of an immediate or close family member; a general partner; an organization for which the official serves as an officer, director, trustee, or employee; or an organization with which the official is negotiating concerning future employment).

d. Making travel choices that are contrary to existing travel policies or are unnecessarily extravagant or expensive.

e. Making procurement or vendor selections that are contrary to existing policies or are unnecessarily extravagant or expensive.

In some circumstances, conditions such as the following might indicate a heightened risk of fraud:

a. the entity's financial stability, viability, or budget is threatened by economic, programmatic, or entity operating conditions;

b. the nature of the audited entity's operations provide opportunities to engage in fraud;

c. inadequate monitoring by management for compliance with policies, laws, and regulations;

d. the organizational structure is unstable or unnecessarily complex;

e. lack of communication and/or support for ethical standards by management;

f. management has a willingness to accept unusually high levels of risk in making significant decisions;

- g.** a history of impropriety, such as previous issues with fraud, waste, abuse, or questionable practices, or past audits or investigations with findings of questionable or criminal activity;
- h.** operating policies and procedures have not been developed or are outdated;
- i.** key documentation is lacking or does not exist;
- j.** lack of asset accountability or safeguarding procedures;
- k.** improper payments;
- l.** false or misleading information;
- m.** a pattern of large procurements in any budget line with remaining funds at year end, in order to “use up all of the funds available”; and
- n.** unusual patterns and trends in contracting, procurement, acquisition, and other activities of the entity or program under audit.

Government programs are subject to many laws, regulations, and provisions of contracts or grant agreements. At the same time, their significance within the context of the audit objectives varies widely, depending on the objectives of the audit. Auditors may find the following approach helpful in assessing whether laws, regulations, or provisions of contracts or grant agreements are significant within the context of the audit objectives:

- a.** Express each audit objective in terms of questions about specific aspects of the program being audited (that is, purpose and goals, internal control, inputs, program operations, outputs, and outcomes).
- b.** Identify laws, regulations, and provisions of contracts or grant agreements that directly relate to specific aspects of the program within the context of the audit objectives.
- c.** Determine if the audit objectives or the auditors’ conclusions could be significantly affected if violations of those laws, regulations, or provisions of contracts or grant agreements occurred. If the audit objectives or audit conclusions could be significantly affected, then those laws, regulations, and provisions of contracts or grant agreements are likely to be significant to the audit objectives.
- d.** Auditors may consult with either their own or management’s legal counsel to (1) determine those laws and regulations that are significant to the audit objectives, (2) design tests of compliance with laws and regulations, or (3) evaluate the results of those tests. Auditors also may consult with either their own or management’s legal counsel when audit objectives require testing compliance with provisions of contracts or grant agreements. Depending on the circumstances of the audit, auditors may consult with others, such as investigative staff, other audit organizations or government entities that provided professional services to the audited entity, or applicable law enforcement authorities, to obtain information on compliance matters

Section 11

Supplemental Guidance for Agreed-Upon Procedures Attestation Engagements

This section establishes a Supplemental Audit Standards Plan that provides guidance for attestation engagements to be conducted in accordance with generally accepted government auditing standards (GAGAS). For attestation engagements, GAGAS incorporate the American Institute of Certified Public Accountants (AICPA) general standard on criteria, and the field work and reporting standards and the related Statements on Standards for Attestation Engagements (SSAE), unless specifically excluded or modified by GAGAS.

Agreed-Upon Procedures Attestation Engagements

As stated earlier in Section 1 of this manual, the Yellow Book defines an attestation engagement as:

An engagement concerned with examining, reviewing, or performing *agreed-upon procedures* on a subject matter or an assertion about a subject matter and reporting on the results.

However, the only attestation engagements the Office of the City Auditor conducts are agreed-upon procedures. The City Auditor will only perform agreed-upon procedures if the subject matter is capable of evaluation against criteria that are suitable and available to users. By specifying the procedures we agreed to perform, the department/agency requesting the review is responsible for ensuring that the procedures are sufficient to meet their purposes, and we make no representation in that respect. These reports are intended solely for the information and use of the management of the City and are not intended to be and should not be used by anyone other than these specified parties.

Supplemental Audit Standards Plan

The following Supplemental Audit Standards Plan must be completed when auditors conduct an Agreed-Upon Procedures Attestation Engagement. It should be completed as an addendum to the Audit Standards Plan found in Section 3 of this manual.

SUPPLEMENTAL AUDIT STANDARDS PLAN – FOR AGREED-UPON PROCEDURES ATTESTATION ENGAGEMENTS

1. FIELD WORK STANDARDS FOR ATTESTATION ENGAGEMENTS: AICPA STANDARDS

<p>For attestation engagements (GAS 6.01, 6.02), GAS incorporates the AICPA general standard on criteria and its fieldwork standards, as well as the related AICPA Statements on Standards for Attestation Engagements. These AICPA standards are identified in GAS. Consideration should be given to all applicable AICPA standards in completing quality control reviews using this guide.</p> <p>GAS incorporates the following AICPA standards for financial audits and attestation engagements:</p> <ul style="list-style-type: none"> (a) The work is to be adequately planned and assistants, if any, are to be properly supervised. (GAS 6.04) (b) While not necessarily required under AICPA standards, GAS establishes a similar standard regarding internal controls that are material to the subject matter or assertion in examination-level attestation engagements. (GAS 6.10, 6.11) (c) Sufficient evidence is to be obtained to afford a reasonable basis for the auditor's opinion/conclusion. (6.04) (d) For attestation engagements only, auditors shall perform the engagement only if the subject matter is capable of evaluation against criteria that are suitable and available to users. (GAS 6.03) 	<p>The planning of the agreed-upon procedures will be documented by indicating the methodology used to perform the agreed-upon procedures, and the work will be properly supervised as indicated by the Audit Manager's or Lead Auditor's initials on the work papers and date of review.</p> <p>Auditors will review internal controls that are material to the subject matter.</p> <p>Sufficient evidence will be obtained to afford a reasonable basis for the auditor's opinion/conclusion.</p> <p>Auditors will determine if the subject matter is capable of evaluation against criteria that are suitable and available to users.</p>	<p>Results or W/P Reference:</p>
---	--	----------------------------------

2. FIELD WORK STANDARDS FOR ATTESTATION ENGAGEMENTS: AUDITOR COMMUNICATION

<p>Auditors should communicate, in writing, the following information to entity management, those charged with governance, and to individuals contracting for or requesting the engagement:</p> <ul style="list-style-type: none"> (a) The auditor's understanding of the services to be performed; (b) The nature, timing and extent of planned testing; (c) The level of assurance to be provided; (d) Any potential restrictions on the auditor's report; <p>If an audit/engagement is terminated before it is completed, auditors should document the results of their work up to termination and the reason for termination. Auditors should use professional judgment to determine whether and how to communicate the reason for termination. (6.06-6.08)</p>	<p>The agreed-upon procedures audit report will be sent to the appropriate management and those in charge with governance. It will include the following:</p> <p>The auditor's understanding of the services to be performed;</p> <p>The nature, timing and extent of planned testing;</p> <p>The level of assurance to be provided;</p> <p>Any potential restrictions on the auditor's report.</p> <p>If the engagement is terminated before it is completed, auditors will document the results of their work up to termination and the reason for termination.</p>	<p>Results or W/P Reference:</p>
---	---	----------------------------------

3. FIELD WORK STANDARDS FOR ATTESTATION ENGAGEMENTS: <u>PREVIOUS AUDITS AND ATTESTATION ENGAGEMENTS</u>		
<p>Auditors should evaluate whether appropriate corrective action has been taken and recommendations implemented to address findings and recommendations from previous audits, attestation engagements, and other studies directly related to the objectives of the audit.</p> <p>Auditors should use this information in assessing risk and determining the nature, timing, and extent of current work. (GAS 6.09)</p>	<p>For agree-upon procedures engagements, auditors will review all previous audit reports issued that are directly related to the objectives of engagement.</p> <p>Determine if corrective actions have been taken by management by implementing the recommendations made.</p> <p>This information will be used to evaluate the risks related to the engagement to determine the potential impact of the work to be performed.</p>	Results or W/P Reference:
4. FIELD WORK STANDARDS FOR ATTESTATION ENGAGEMENTS: <u>FRAUD, ILLEGAL ACTS, VIOLATIONS AND ABUSE</u>		
<p>Auditors have the following responsibilities relating to fraud, illegal acts, and violations of provisions of contracts or grant agreements in financial audits and attestation engagements:</p> <p>For review-level and agreed-upon-procedure-level attestation engagements, auditors should be alert for indications of fraud, illegal acts or violations of contract or grant provisions. If such indications exist that could materially affect the subject matter of the engagement, auditors should apply procedures to ascertain whether fraud, illegal acts or violations of contract or grant provisions has occurred and the effect on the engagement. Because the scope of these types of engagements is limited, auditors are not expected to provide reasonable assurance of detecting fraud, illegal acts or violations of contract or grant agreement provisions. (GAS 6.13b)</p> <p>Auditors should be alert for indications of abuse. If indications of abuse exist that could significantly affect the audit/engagement, auditors should apply procedures to ascertain whether abuse has occurred and the effect on the audit/engagement. Because the determination of abuse is subjective, auditors are not expected to provide reasonable assurance of detecting abuse. (GAS 6.14)</p> <p>Auditors should exercise professional judgment in pursuing indications of possible fraud, illegal acts, violations of provisions of contracts and grant agreements, or abuse in order not to interfere with potential investigations, legal proceedings, or both. (GAS 6.29)</p>	<p>For all agreed-upon procedures reviews, audit staff involved will be on alert for indications of fraud, illegal acts, violations of contract or grant provisions, and abuse that could materially affect the subject matter of the engagement.</p> <p>If such indicators exist, additional audit procedures will be conducted to ascertain whether fraud, illegal acts, violations of contract or grant provisions, or abuse has occurred, and the effect on the engagement will be evaluated.</p> <p>Auditors will exercise professional judgment in pursuing indications of possible fraud, illegal acts, violations of provisions of contracts and grant agreements, or abuse in order not to interfere with potential investigations, legal proceedings, or both.</p>	Results or W/P Reference:

5. FIELD WORK STANDARDS FOR ATTESTATION ENGAGEMENTS: <u>ELEMENTS OF A FINDING</u>		
<p>Audit findings may involve deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse. Auditors should plan and perform procedures to develop the elements of findings that are relevant and necessary to achieve the audit objectives. The elements of an audit finding are: criteria, condition, cause, and effect or potential effect. (GAS 6.15-6.19)</p>	<p>Auditors will plan and perform procedures to develop the elements of findings, including the criteria, condition, cause, and effect or potential effect that are relevant and necessary to achieve the audit objectives.</p>	<p>Results or W/P Reference:</p>
6. FIELD WORK STANDARDS FOR ATTESTATION ENGAGEMENTS: <u>DOCUMENTATION</u>		
<p>For attestation engagements: Auditors should prepare attest documentation in sufficient detail to enable an experienced auditor to understand the nature, timing, extent, and results of procedures performed, the evidence obtained, the sources of evidence, and the conclusions reached. In addition to other documentation requirements explicitly addressed in GAS and AICPA standards, auditors should document the following:</p> <ul style="list-style-type: none"> (a) the objectives, scope and methodology of the audit/engagement; (b) the work performed to support significant judgments and conclusions, including descriptions of transactions and records examined; (c) evidence of supervisory review, before the engagement report is issued, of the work performed that supports findings, conclusions, and recommendations contained in the engagement report; <i>{Clarification: As with all quality controls established by an audit organization, the nature and extent of the review of audit work may vary depending on a number of factors. See GAS 3.51-3.52.}</i> (d) the auditor's consideration that planned procedures are designed to achieve objectives when evidential matter obtained is highly dependent on computerized information systems and is material to the objective, and the auditors are not relying on the effectiveness of internal control over those computerized systems that produced the information. <p>(GAS 6.20-6.23)</p> <p>Audit organizations should establish policies and procedures for:</p> <ul style="list-style-type: none"> (a) Record retention whether documentation is in paper, electronic, or other media (b) Handling requests by outside parties to obtain access to audit documentation <p>(GAS 4.22 – 4.24, 6.24-6.26)</p>	<p>Auditors will prepare attest documentation in sufficient detail to enable an experienced auditor to understand the nature, timing, extent, and results of procedures performed, the evidence obtained, the sources of evidence, and the conclusions reached.</p> <p>Auditors will document the following:</p> <p>The objectives, scope and methodology of the audit;</p> <p>The work performed to support significant judgments and conclusions, including descriptions of transactions and records examined;</p> <p>Evidence of supervisory review, before the engagement report is issued, of the work performed that supports findings, conclusions, and recommendations contained in the engagement report as indicated by initials and date;</p> <p>The auditor's consideration that planned procedures are designed to achieve objectives when evidential matter obtained is highly dependent on computerized information systems and is material to the objective, and the auditors are not relying on the effectiveness of internal control over those computerized systems that produced the information.</p> <p>Audit work paper will be retained and access provide to outside parties in accordance with the Disclosing Working Papers in Section 6 of the Audit Manual.</p>	<p>Results or W/P Reference:</p>

7. REPORTING STANDARDS FOR FINANCIAL AUDITS AND ATTESTATION ENGAGEMENTS: AICPA STANDARDS

For attestation engagements (GAS 6.01, 6.02), GAS incorporates the AICPA reporting standards, as well as the related AICPA Statements on Standards for Attestation Engagements (SSAE). Some of these AICPA standards are presented in GAS. Consideration should be given to all applicable AICPA standards in completing quality control reviews using this guide.

The four AICPA reporting standards for all levels of attestation engagements are as follows (GAS 6.30, 6.31):

- (a) The report must identify the subject matter or the assertion being reported on and state the character of the engagement.
- (b) The report must state the auditor's conclusions about the subject matter or the assertion in relation to the criteria against which the subject matter was evaluated.
- (c) The report must state all of the auditor's significant reservations about the engagement, the subject matter, and, if applicable, the assertion related thereto.
- (d) The report must state that the use of the report is restricted to specified parties under the following circumstances: (1) when the criteria used to evaluate the subject matter are determined by the practitioner to be appropriate only for a limited number of parties who either participated in their establishment or can be presumed to have an adequate understanding of the criteria, (2) when the criteria used to evaluate the subject matter are available only to specified parties, (3) when reporting on subject matter and a written assertion has not been provided by the responsible party, and (4) when the report is on an attest engagement to apply agreed-upon procedures to the subject matter.

All agreed-upon procedures reports will state the following when auditors comply with all applicable GAS requirements:

We conducted our work in accordance with Generally Accepted Government Auditing Standards. These standards provide guidance on performing and reporting on the results of agreed-upon procedures. By specifying the procedures we agreed to perform, the department/agency requesting the review is responsible for ensuring that the procedures are sufficient to meet their purposes, and we make no representation in that respect. Our review is intended solely for the information and use of the management of the City and is not intended to be and should not be used by anyone other than these specified parties.

In addition, all agreed-upon procedures reports will identify the subject matter and assertions being reported on and state the character of the engagement.

It will state the auditor's conclusions about the subject matter or the assertion in relation to the criteria against which the subject matter was evaluated.

The report will state all of the auditor's significant reservations about the engagement, the subject matter, and, if applicable, the assertions made.

Auditors will report on any applicable standards that were not followed. If this occurs the report will include why the standards were not followed and how if affected or could have affected the results of the audit engagement.

Results or W/P Reference:

<p>Reports should state that the audit or attestation engagement was performed in accordance with GAS. Auditors may also cite AICPA standards in addition to citing GAS. Auditors should disclose which applicable standards are not followed, why, and how it affected or could have affected the results of the audit/engagement. (GAS 1.12, 1.13, 6.32)</p>	<p>All agreed-upon procedures reports will state the following when auditors comply with all applicable GAS requirements:</p> <p>We conducted our work in accordance with Generally Accepted Government Auditing Standards. These standards provide guidance on performing and reporting on the results of agreed-upon procedures. Auditors will report on any applicable standards that were not followed. If this occurs the report will include why the standards were not followed and how it affected or could have affected the results of the audit engagement.</p>	<p>Results or W/P Reference:</p>
<p>8. REPORTING STANDARDS FOR ATTESTATION ENGAGEMENTS: <u>REPORTING DEFICIENCIES IN INTERNAL CONTROL, FRAUD, ILLEGAL ACTS, VIOLATIONS, AND ABUSE</u></p>		
<p>For financial audits, including audits of financial statements in which the auditor provides an opinion or disclaimer, and for attestation engagements, auditors should report, as applicable to the objectives of the audit/engagement, and based upon the audit work performed:</p> <ul style="list-style-type: none"> • significant deficiencies in internal control, identifying those considered to be material weaknesses • all instances of fraud and illegal acts unless inconsequential (a) violations of provisions of contract or grant agreements and abuse that could have a material effect on the financial statements. (GAS 6.33, 6.34) (b) Auditors should document communication to officials of the audited entity internal controls deficiencies that have an inconsequential effect on the financial statements. (GAS 6.35) (c) When violations of provisions of contracts or grant agreements or abuse are less than material but more than inconsequential the auditors should communicate those findings in writing to officials of the audited entity. Auditors should document communication to officials of the audited entity violations or abuse that is inconsequential (GAS 6.36, 6.37) (d) In two circumstances, auditors should report known or likely fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse directly to parties external to the audited entity. (GAS 6.39) <ul style="list-style-type: none"> • When entity management fails to satisfy legal or regulatory requirements to report 	<p>For agreed-upon attestation engagements, auditors will report on, as applicable to the objectives of the engagement, and based upon the work performed:</p> <p>Significant deficiencies in internal control, identifying those considered to be material weaknesses;</p> <p>All instances of fraud and illegal acts unless inconsequential;</p> <p>Violations of provisions of contracts or grant agreements and abuse that could have a material effect on the subject matter of the engagement.</p> <p>When any of the instances above are found, the auditor will review and follow GAS Sections 6.33 through 6.43 to ensure proper treatment of the issues identified.</p>	<p>Results or W/P Reference:</p>

<p>such information to external parties specified in law or regulation, auditors should first communicate the failure to report to those charged with governance. If reporting still does not occur, then auditors should report the information directly to the specified external parties.</p> <ul style="list-style-type: none"> • When entity management fails to take timely and appropriate steps to respond to known or likely fraud, illegal acts, violations or abuse that are likely to have a material affect on the financial statements <u>and</u> involves funding from a government agency, auditors should first communicate managements' failure to take timely and appropriate steps to those charged with governance. If timely and appropriate steps are not taken, then auditors should report the entity's failure to take timely and appropriate steps directly to the funding agency. <p>The auditors should comply with these requirements even if they have resigned or been dismissed from the audit prior to its completion. (GAS 6.40) Auditors should obtain sufficient, appropriate evidence such as confirmation from outside parties, to corroborate assertions by management or the entity that the reporting has been made (GAS 6.41). Presentation of findings should develop the elements of the findings to the extent necessary to achieve the audit objectives. (GAS 6.42) Auditors should place their findings in perspective by describing the nature and extent of the issues being reported and the extent of work performed. The findings should be related to the population or number of cases examined or other measures as appropriate. If results cannot be projected, the auditors' conclusions should be appropriately limited. (GAS 6.43)</p>		
9. REPORTING STANDARDS FOR ATTESTATION ENGAGEMENTS: <u>REPORTING VIEWS OF RESPONSIBLE OFFICIALS</u>		
<p>If the auditors' report discloses deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse, auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions. (GAS 6.44-6.50)</p> <p>Auditors should include in their report a copy of the officials' written comments or a summary. Auditors should include a summary of any oral comments received once they are reviewed for accuracy by the responsible officials. (GAS 6.46)</p> <p>Auditors should include in the report an evaluation of the comments, as appropriate. (GAS 6.47)</p>	<p>For all agreed-upon procedures audit reports the auditors will obtain and include in the report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions.</p> <p>A draft report will be provided to the responsible officials for review and comment. Obtaining the comments in writing is preferred, but summarizing oral comments are acceptable.</p>	<p>Results or W/P Reference:</p>

10. REPORTING STANDARDS FOR ATTESTATION ENGAGEMENTS: <u>REPORTING PRIVILEGED AND CONFIDENTIAL INFORMATION</u>		
<p>If certain pertinent information is prohibited from public disclosure or excluded from the report due to confidential or sensitive nature of the information, auditors should disclose in the report that certain information has been omitted and the reason or other circumstance that makes the omission necessary. Auditors should evaluate whether this omission could distort the audit results or conceal improper or illegal practices. Audit organizations subject to public records laws should determine whether these laws could impact the availability of classified or limited use reports and affect how they might communicate results. (GAS 6.51-6.55)</p>	<p>If certain pertinent information is prohibited from public disclosure or excluded from the report due to confidential or sensitive nature of the information, auditors will disclose in the report that certain information has been omitted and the reason or other circumstance that makes the omission necessary.</p> <p>Auditors will evaluate whether this omission could distort the audit results or conceal improper or illegal practices.</p> <p>In the case of confidential or sensitive information, the City Auditor staff will consult City Attorney staff regarding public records laws to determine whether these laws have an impact on how the results should be communicated.</p>	<p>Results or W/P Reference:</p>
11. REPORTING STANDARDS FOR ATTESTATION ENGAGEMENTS: <u>REPORT ISSUANCE AND DISTRIBUTION</u>		
<p>Auditors should document any limitation on report distribution. Government auditors should distribute audit reports to those charged with governance, to the appropriate officials of the audited entity, and to the appropriate oversight bodies. As appropriate auditors should also distribute copies of the report to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and to others authorized to receive such reports. (GAS 6.56)</p> <ol style="list-style-type: none"> Internal audit organizations communicate results to the parties who can ensure that the results are given due consideration. Prior to release to parties outside of the organization, the auditors should assess the potential risk to the organization, consult with senior management and/or legal counsel, and control dissemination. Public accounting firms contracted to perform an audit under GAS should clarify report distribution responsibilities with the organization. If the audit firm is to distribute reports, they should reach agreement with the party contracting for the audit about which officials or organizations will receive the report and steps to make the report available to the public. 	<p>Agreed-upon procedures reports will be distributed to those charged with governance, to the appropriate officials of the audited entity, and to the appropriate oversight bodies.</p> <p>The report will be distributed to the City Attorneys Office and to other officials who may be responsible for acting on audit findings and recommendations.</p> <p>The reports will also be posted on the City Auditors website for public disclosure unless prohibited due to the confidential or sensitive nature of the information.</p>	<p>Results or W/P Reference:</p>